FIFTH THIRD BANCORP
Form 4/A
May 19, 2005

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL
OMB Number: 3235-0287
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(Print or Type Responses)

1. Name and Address of Reporting Person *
KOCH ROBERT L II
(Last) (First) (Middle)
38 FOUNTAIN SQUARE PLAZA
(Street)
CINCINNATI, OH 45263
(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
FIFTH THIRD BANCORP [FITB]

3. Date of Earliest Transaction (Month/Day/Year)
04/29/2005

4. If Amendment, Date Original Filed(Month/Day/Year)
05/02/2005

5. Relationship of Reporting Person(s) to Issuer
(Check all applicable)
__X__ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	04/29/2005		G	V	512	D	(1)	38,440	D	
Common Stock								2,516	I	by Spouse

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
KOCH ROBERT L II 38 FOUNTAIN SQUARE PLAZA CINCINNATI, OH 45263	X			

Signatures

Paul L. Reynolds, as Attorney-in-Fact for Robert L. Koch, II	05/19/2005
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) This transaction is a gift in which the transaction price is not required to be reported.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. : Quoted prices (unadjusted) or identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Accordingly, securities available-for-sale are recorded at fair value on a recurring basis. Additionally, from time to time, we may be required to record other assets at fair value on a nonrecurring basis, such as loans held for sale, and impaired loans held

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Explanation of Responses:

for investment. These nonrecurring fair value adjustments typically involve application of lower of cost or market accounting or write-downs of individual assets.

Following is a description of valuation methodologies used for assets and liabilities recorded at fair value.

Available-for-Sale Securities: Investment securities available-for-sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include mortgage-backed securities issued by government sponsored entities, municipal bonds and corporate debt securities. Certain trust preferred securities classified as corporate debt securities are Level 3 due to limited market trades of these classes of securities.

Derivative Financial Instruments: Derivative financial instruments are recorded at fair value on a recurring basis. Fair value measurement is based on pricing models run by a third-party, utilizing observable market-based inputs. All future floating cash flows are projected and both floating and fixed cash flows are discounted to the valuation date. As a result, we classify interest rate swaps as Level 2.

Loans Held for Sale: Loans held for sale are carried at the lower of cost or market value. The fair value of loans held for sale is based on what secondary markets are currently offering for portfolios with similar characteristics. As such, we classify loans subject to nonrecurring fair value adjustments as Level 2.

Loans: We do not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired and an allowance for loan loss is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the original contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment in accordance with ASC Topic 310, Accounting by Creditors for Impairment of a Loan. The fair value of impaired loans is estimated using one of several methods, including collateral value, liquidation value and discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the discounted cash flows or collateral value exceeds the recorded investments in such loans. These loans are carried at recorded loan investment, and therefore are not included in the following tables of loans measured at fair value. Impaired loans internally graded as substandard, doubtful, or loss are evaluated using the fair value of collateral method. All other impaired loans are measured for impairment using the discounted cash flows method. In accordance with ASC Topic 310, impaired loans where an allowance is established based on the fair value of collateral requires classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, we record the impaired loan as nonrecurring Level 2. When a current appraised value is not available and there is no observable market price, we record the impaired loan as nonrecurring Level 3.

When impaired loans are deemed required to be included in the fair value hierarchy, management immediately begins the process of evaluating the estimated fair value of the underlying collateral to determine if a related specific allowance for loan losses or charge-off is necessary. Current appraisals are ordered once a loan is deemed impaired if the existing appraisal is more than twelve months old, or more frequently if there is known deterioration in value. For recently identified impaired loans, a current appraisal may not be available at the financial statement date. Until the current appraisal is obtained, the original appraised value is discounted, as appropriate, to compensate for the estimated depreciation in the value of the loan's underlying collateral since the date of the original appraisal. Such discounts are generally estimated based upon management's knowledge of sales of similar collateral within the applicable market area and its knowledge of other real estate market-related data as well as general economic trends. When a new appraisal is received (which generally are received within 3 months of a

loan being identified as impaired), management then re-evaluates the fair value of the collateral and adjusts any specific allocated allowance for loan losses, as appropriate. In addition, management also assigns a discount of 7–10% for the estimated costs to sell the collateral.

Foreclosed Properties: Foreclosed properties consists of real estate acquired in foreclosure or other settlement of loans. Such assets are carried on the balance sheet at the lower of the investment in the real estate or its fair value less estimated selling costs. The fair value of foreclosed properties is determined on a nonrecurring basis generally utilizing current appraisals performed by an independent, licensed appraiser applying an income or market value approach using observable market data (Level 2). Updated appraisals of foreclosed properties are generally obtained if the existing appraisal is more than 18 months old or more frequently if there is a known deterioration in value. However, if a current appraisal is not available, the original appraised value is discounted, as appropriate, to compensate for the estimated depreciation in the value of the real estate since the date of its original appraisal. Such discounts are generally estimated based upon management's knowledge of sales of

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similar property within the applicable market area and its knowledge of other real estate market-related data as well as general economic trends (Level 3). Upon foreclosure, any fair value adjustment is charged against the allowance for loan losses. Subsequent fair value adjustments are recorded in the period incurred and included in other noninterest expense in the consolidated statements of income.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The table below presents the recorded amount of assets and liabilities measured at fair value on a recurring basis.

	Balance at	Fair Value Measurements Using:		
Dollars in thousands	December 31, 2015	Level 1	Level 2	Level 3
Available for sale securities				
U.S. Government sponsored agencies	$21,475	$—	$21,475	$—
Mortgage backed securities:				
Government sponsored agencies	146,734	—	146,734	—
Nongovernment sponsored entities	7,885	—	7,885	—
State and political subdivisions	1,953	—	1,953	—
Corporate debt securities	14,226	—	8,367	5,859
Other equity securities	77	—	77	—
Tax-exempt state and political subdivisions	88,442	—	88,442	—
Total available for sale securities	$280,792	$—	$274,933	$5,859
Derivative financial liabilities				
Interest rate swaps	$5,072	$—	$5,072	$—

	Balance at	Fair Value Measurements Using:		
Dollars in thousands	December 31, 2014	Level 1	Level 2	Level 3
Available for sale securities				
U.S. Government sponsored agencies	$23,174	$—	$23,174	$—
Mortgage backed securities:				
Government sponsored agencies	149,777	—	149,777	—
Nongovernment sponsored entities	12,145	—	12,145	—
State and political subdivisions	8,694	—	8,694	—
Corporate debt securities	3,776	—	—	3,776
Other equity securities	7	—	7	—
Tax-exempt state and political subdivisions	85,261	—	85,261	—
Total available for sale securities	$282,834	$—	$279,058	$3,776
Derivative financial assets				
Interest rate swaps	$2,911	$—	$2,911	$—

A reconciliation of the beginning and ending balances of assets measured at fair value on a recurring basis using significant unobservable (Level 3) inputs is not presented as such amounts were not significant during the reported periods.

Assets and Liabilities Recorded at Fair Value on a Nonrecurring Basis

We may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis in accordance with U.S. generally accepted accounting principles. These include assets that are measured at the lower of cost or

market that were recognized at fair value below cost at the end of the period. Assets measured at fair value on a nonrecurring basis are included in the table below.

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Dollars in thousands	Balance at December 31, 2015	Fair Value Measurements Using: Level 1	Level 2	Level 3
Residential mortgage loans held for sale	$779	$—	$779	$—
Collateral-dependent impaired loans				
Commercial	$—	$—	$—	$—
Commercial real estate	627	—	—	627
Construction and development	1,054	—	—	1,054
Residential real estate	279	—	279	—
Total collateral-dependent impaired loans	$1,960	$—	$279	$1,681
Foreclosed properties				
Commercial real estate	$1,103	$—	$1,103	$—
Construction and development	18,477	—	18,419	58
Residential real estate	314	—	314	—
Total foreclosed properties	$19,894	$—	$19,836	$58

Dollars in thousands	Balance at December 31, 2014	Fair Value Measurements Using: Level 1	Level 2	Level 3
Residential mortgage loans held for sale	$527	$—	$527	$—
Collateral-dependent impaired loans				
Commercial	$44	—	$—	$44
Commercial real estate	344	—	344	—
Construction and development	852	—	852	—
Residential real estate	312	—	312	—
Total collateral-dependent impaired loans	$1,552	$—	$1,508	$44
Foreclosed properties				
Commercial real estate	$3,892	$—	$3,892	$—
Construction and development	20,952	—	20,841	111
Residential real estate	2,025	—	2,025	—
Total foreclosed properties	$26,869	$—	$26,758	$111

ASC Topic 825, Financial Instruments, requires disclosure of the fair value of financial assets and financial liabilities, including those financial assets and financial liabilities that are not measured and reported at fair value on a recurring basis or non-recurring basis. The following summarizes the methods and significant assumptions we used in estimating our fair value disclosures for financial instruments.

Cash and cash equivalents: The carrying values of cash and cash equivalents approximate their estimated fair value.

Interest bearing deposits with other banks: The carrying values of interest bearing deposits with other banks approximate their estimated fair values.

Federal funds sold: The carrying values of Federal funds sold approximate their estimated fair values.

Securities: Estimated fair values of securities are based on quoted market prices, where available. If quoted market prices are not available, estimated fair values are based on quoted market prices of comparable securities.

Loans held for sale: The carrying values of loans held for sale approximate their estimated fair values.

Loans: The estimated fair values for loans are computed based on scheduled future cash flows of principal and interest, discounted at interest rates currently offered for loans with similar terms to borrowers of similar credit quality. No prepayments of principal are assumed.

Accrued interest receivable and payable: The carrying values of accrued interest receivable and payable approximate their estimated fair values.

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Deposits: The estimated fair values of demand deposits (i.e. non-interest bearing checking, NOW, money market and savings accounts) and other variable rate deposits approximate their carrying values. Fair values of fixed maturity deposits are estimated using a discounted cash flow methodology at rates currently offered for deposits with similar remaining maturities. Any intangible value of long-term relationships with depositors is not considered in estimating the fair values disclosed.

Short-term borrowings: The carrying values of short-term borrowings approximate their estimated fair values.

Long-term borrowings: The fair values of long-term borrowings are estimated by discounting scheduled future payments of principal and interest at current rates available on borrowings with similar terms.

Subordinated debentures: The carrying values of subordinated debentures approximate their estimated fair values.

Subordinated debentures owed to unconsolidated subsidiary trusts: The carrying values of subordinated debentures owed to unconsolidated subsidiary trusts approximate their estimated fair values.

Derivative financial instruments: The fair value of the interest rate swaps is valued using independent pricing models.

Off-balance sheet instruments: The fair values of commitments to extend credit and standby letters of credit are estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present credit standing of the counter parties. The amounts of fees currently charged on commitments and standby letters of credit are deemed insignificant, and therefore, the estimated fair values and carrying values are not shown below.

The carrying values and estimated fair values of our financial instruments are summarized below:

	At December 31,			
	2015		2014	
Dollars in thousands	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial assets				
Cash and cash equivalents	$9,487	$9,487	$12,510	$12,510
Securities available for sale	280,792	280,792	282,834	282,834
Other investments	8,949	8,949	6,183	6,183
Loans held for sale, net	779	779	527	527
Loans, net	1,079,331	1,084,955	1,019,842	1,033,890
Accrued interest receivable	5,544	5,544	5,838	5,838
	$1,384,882	$1,390,506	$1,327,734	$1,341,782
Financial liabilities				
Deposits	$1,066,709	$1,077,510	$1,061,314	$1,078,406
Short-term borrowings	171,394	171,394	123,633	123,633
Long-term borrowings	75,581	80,506	77,490	84,732
Subordinated debentures	—	—	16,800	16,800
Subordinated debentures owed to unconsolidated subsidiary trusts	19,589	19,589	19,589	19,589
Accrued interest payable	826	826	812	812
Derivative financial liabilities	5,072	5,072	2,911	2,911
	$1,339,171	$1,354,897	$1,302,549	$1,326,883

NOTE 4. SECURITIES

We classify debt and equity securities as “held to maturity”, “available for sale” or “trading” according to management’s intent. The appropriate classification is determined at the time of purchase of each security and re-evaluated at each reporting date.

Securities held to maturity: Certain debt securities for which we have the positive intent and ability to hold to maturity are reported at cost, adjusted for amortization of premiums and accretion of discounts. There are no securities classified as held to maturity in the accompanying financial statements.

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Securities available for sale: Securities not classified as "held to maturity" or as "trading" are classified as "available for sale." Securities classified as "available for sale" are those securities that we intend to hold for an indefinite period of time, but not necessarily to maturity. "Available for sale" securities are reported at estimated fair value net of unrealized gains or losses, which are adjusted for applicable income taxes, and reported as a separate component of shareholders' equity.

Trading securities: There are no securities classified as "trading" in the accompanying financial statements.

Impairment assessment: Impairment exists when the fair value of a security is less than its cost. Cost includes adjustments made to the cost basis of a security for accretion, amortization and previous other-than-temporary impairments. We perform a quarterly assessment of the debt and equity securities in our investment portfolio that have an unrealized loss to determine whether the decline in the fair value of these securities below their cost is other-than-temporary. This determination requires significant judgment. Impairment is considered other-than-temporary when it becomes probable that we will be unable to recover the cost of an investment. This assessment takes into consideration factors such as the length of time and the extent to which the market values have been less than cost, the financial condition and near term prospects of the issuer including events specific to the issuer or industry, defaults or deferrals of scheduled interest, principal or dividend payments, external credit ratings and recent downgrades, and our intent and ability to hold the security for a period of time sufficient to allow for a recovery in fair value. If a decline in fair value is judged to be other than temporary, the cost basis of the individual security is written down to fair value which then becomes the new cost basis. The amount of the write down is included in other-than-temporary impairment of securities in the consolidated statements of income. The new cost basis is not adjusted for subsequent recoveries in fair value, if any.

Realized gains and losses on sales of securities are recognized on the specific identification method. Amortization of premiums and accretion of discounts are computed using the interest method.

The amortized cost, unrealized gains, unrealized losses and estimated fair values of securities at December 31, 2015 and 2014, are summarized as follows:

	December 31, 2015			
	Amortized	Unrealized		Estimated
Dollars in thousands	Cost	Gains	Losses	Fair Value
Available for Sale				
Taxable debt securities				
U.S. Government and agencies and corporations	$20,461	$1,063	$49	$21,475
Residential mortgage-backed securities:				
Government-sponsored agencies	145,586	1,943	795	146,734
Nongovernment-sponsored entities	7,836	82	33	7,885
State and political subdivisions				
Water and sewer revenues	250	—	—	250
Other revenues	1,729	—	26	1,703
Corporate debt securities	14,494	—	268	14,226
Total taxable debt securities	190,356	3,088	1,171	192,273
Tax-exempt debt securities				
State and political subdivisions				
General obligations	52,490	1,767	41	54,216
Water and sewer revenues	7,614	172	—	7,786
Lease revenues	8,671	187	1	8,857
Special tax revenues	4,532	72	—	4,604
Other revenues	12,703	290	14	12,979
Total tax-exempt debt securities	86,010	2,488	56	88,442

Equity securities	77	—	—	77
Total available for sale securities	$276,443	$5,576	$1,227	$280,792

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	December 31, 2014			
	Amortized	Unrealized		Estimated
Dollars in thousands	Cost	Gains	Losses	Fair Value
Available for Sale				
Taxable debt securities				
U.S. Government and agencies and corporations	$22,153	$1,073	$52	$23,174
Residential mortgage-backed securities:				
Government-sponsored agencies	147,951	2,599	773	149,777
Nongovernment-sponsored entities	12,051	142	48	12,145
State and political subdivisions				
General obligations	1,975	2	33	1,944
Water and sewer revenues	1,976	14	7	1,983
Other revenues	4,696	73	2	4,767
Corporate debt securities	3,776	—	—	3,776
Total taxable debt securities	194,578	3,903	915	197,566
Tax-exempt debt securities				
State and political subdivisions				
General obligations	49,515	2,338	12	51,841
Water and sewer revenues	11,258	244	3	11,499
Lease revenues	4,617	75	10	4,682
Lottery/casino revenues	3,811	206	9	4,008
Other revenues	12,845	404	18	13,231
Total tax-exempt debt securities	82,046	3,267	52	85,261
Equity securities	7	—	—	7
Total available for sale securities	$276,631	$7,170	$967	$282,834

The below information is relative to the five states where issuers with the highest volume of state and political subdivision securities held in our portfolio are located. We own no such securities of any single issuer which we deem to be a concentration.

	December 31, 2015			
	Amortized	Unrealized		Estimated
Dollars in thousands	Cost	Gains	Losses	Fair Value
Illinois	$9,899	$302	$2	$10,199
Texas	9,636	334	—	9,970
West Virginia	7,736	117	—	7,853
Ohio	7,246	114	—	7,360
California	6,139	202	15	6,326

Management performs pre-purchase and ongoing analysis to confirm that all investment securities meet applicable credit quality standards. Prior to July 1, 2013, we principally used credit ratings from Nationally Recognized Statistical Rating Organizations ("NRSROs") to support analyses of our portfolio of securities issued by state and political subdivisions, as we generally do not purchase securities that are rated below the six highest NRSRO rating categories. Beginning July 1, 2013, in addition to considering a security's NRSRO rating, we now also assess or confirm through an internal review of an issuer's financial information and other applicable information that: 1) the issuer's risk of default is low; 2) the characteristics of the issuer's demographics and economic environment are satisfactory; and 3) the issuer's budgetary position and stability of tax or other revenue sources are sound.

The proceeds from sales, calls and maturities of available for sale securities, including principal payments received on mortgage-backed obligations, and the related gross gains and losses realized are as follows:

Dollars in thousands	Proceeds from			Gross realized	
		Calls and	Principal		
Years ended December 31,	Sales	Maturities	Payments	Gains	Losses
2015	$69,632	$2,043	$38,502	$1,732	$288
2014	80,914	4,051	34,390	1,037	824
2013	54,340	2,669	62,179	674	434

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Residential mortgage-backed obligations having contractual maturities ranging from 4 to 50 years are reflected in the following maturity distribution schedules based on their anticipated average life to maturity, which ranges from 1 to 32 years. Accordingly, discounts are accreted and premiums are amortized over the anticipated average life to maturity of the specific obligation.

The maturities, amortized cost and estimated fair values of securities at December 31, 2015, are summarized as follows:

Dollars in thousands	Amortized Cost	Estimated Fair Value
Due in one year or less	$52,801	$53,343
Due from one to five years	101,061	101,891
Due from five to ten years	21,248	21,661
Due after ten years	101,256	103,820
Equity securities	77	77
Total	$276,443	$280,792

At December 31, 2015 and 2014, securities with estimated fair values of $131.2 million and $128.1 million respectively, were pledged to secure public deposits, and for other purposes required or permitted by law.

We held 64 available for sale securities having an unrealized loss at December 31, 2015. We do not intend to sell these securities, and it is more likely than not that we will not be required to sell these securities before recovery of their amortized cost bases. We believe that this decline in value is primarily attributable to the lack of market liquidity and to changes in market interest rates and not due to credit quality. Accordingly, no additional other-than-temporary impairment charge to earnings is warranted at this time.

Provided below is a summary of securities available for sale which were in an unrealized loss position at December 31, 2015 and 2014, including debt securities for which a portion of other-than-temporary impairment has been recognized in other comprehensive income.

	2015					
	Less than 12 months		12 months or more		Total	
Dollars in thousands	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss
Temporarily impaired securities						
Taxable debt securities						
U.S. Government agencies and corporations	$2,104	$(2)	$3,151	$(47)	$5,255	$(49)
Residential mortgage-backed securities:						
Government-sponsored agencies	52,970	(569)	8,672	(226)	61,642	(795)
Nongovernment-sponsored entities	2,298	—	2,819	(33)	5,117	(33)
State and political subdivisions:						
Other revenues	1,702	(26)	—	—	1,702	(26)
Corporate debt securities	8,367	(268)	—	—	8,367	(268)
Tax-exempt debt securities						
State and political subdivisions:						
General obligations	5,977	(41)	—	—	5,977	(41)
Lease revenues	576	(1)	—	—	576	(1)
Other revenues	1,218	(14)	—	—	1,218	(14)

Total temporarily impaired securities	75,212	(921)	14,642	(306)	89,854	(1,227)
Total other-than-temporarily impaired securities	—	—	—	—	—	—
Total	$75,212	$(921)	$14,642	$(306)	$89,854	$(1,227)

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Dollars in thousands	2014 Less than 12 months Estimated Fair Value	Unrealized Loss	12 months or more Estimated Fair Value	Unrealized Loss	Total Estimated Fair Value	Unrealized Loss
Temporarily impaired securities						
Taxable debt securities						
U.S. Government agencies and corporations	$—	$—	$3,912	$(52)	$3,912	$(52)
Residential mortgage-backed securities:						
Government-sponsored agencies	36,825	(535)	21,915	(238)	58,740	(773)
Nongovernment-sponsored entities	5,488	(44)	2,163	(4)	7,651	(48)
State and political subdivisions:						
General obligations	—	—	316	(33)	316	(33)
Water and sewer revenues	—	—	817	(7)	817	(7)
Other revenues	1,098	(2)	—	—	1,098	(2)
Corporate debt securities	—	—	—	—	—	—
Tax-exempt debt securities						
State and political subdivisions:						
General obligations	3,708	(8)	438	(4)	4,146	(12)
Water and sewer revenues	721	(3)	—	—	721	(3)
Lease revenues	—	—	1,168	(10)	1,168	(10)
Lottery/casino revenues	—	—	1,126	(9)	1,126	(9)
Other revenues	1,247	(8)	846	(10)	2,093	(18)
Total temporarily impaired securities	49,087	(600)	32,701	(367)	81,788	(967)
Total other-than-temporarily impaired securities	—	—	—	—	—	—
Total	$49,087	$(600)	$32,701	$(367)	$81,788	$(967)

NOTE 5. LOANS

Loans are generally stated at the amount of unpaid principal, reduced by unearned discount and allowance for loan losses. Interest on loans is accrued daily on the outstanding balances. Loan origination fees and certain direct loan origination costs are deferred and amortized as adjustments of the related loan yield over its contractual life. We categorize residential real estate loans in excess of $600,000 as jumbo loans.

Generally, loans are placed on nonaccrual status when principal or interest is greater than 90 days past due based upon the loan's contractual terms. Interest is accrued daily on impaired loans unless the loan is placed on nonaccrual status. Impaired loans are placed on nonaccrual status when the payments of principal and interest are in default for a period of 90 days, unless the loan is both well-secured and in the process of collection. Interest on nonaccrual loans is recognized primarily using the cost-recovery method. Loans may be returned to accrual status when repayment is reasonably assured and there has been demonstrated performance under the terms of the loan or, if applicable, the terms of the restructured loans.

Commercial-related loans or portions thereof (which are risk-rated) are charged off to the allowance for loan losses when the loss has been confirmed. This determination is made on a case by case basis considering many factors, including the prioritization of our claim in bankruptcy, expectations of the workout/restructuring of the loan and valuation of the borrower’s equity. We deem a loss confirmed when a loan or a portion of a loan is classified “loss” in

accordance with bank regulatory classification guidelines, which state, “Assets classified loss are considered uncollectible and of such little value that their continuance as bankable assets is not warranted”.

Consumer-related loans are generally charged off to the allowance for loan losses upon reaching specified stages of delinquency, in accordance with the Federal Financial Institutions Examination Council policy. For example, credit card loans are charged off by the end of the month in which the account becomes 180 days past due or within 60 days from receiving notification about a specified event (e.g., bankruptcy of the borrower), which ever is earlier. Residential mortgage loans are generally charged off to net realizable value no later than when the account becomes 180 days past due. Other consumer loans, if collateralized, are generally charged off to net realizable value at 120 days past due.

Loans are summarized as follows:

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Dollars in thousands	2015	2014
Commercial	$97,201	$88,590
Commercial real estate		
Owner-occupied	203,555	157,783
Non-owner occupied	337,294	317,136
Construction and development		
Land and land development	65,500	67,881
Construction	9,970	28,591
Residential real estate		
Non-jumbo	221,750	220,071
Jumbo	50,313	52,879
Home equity	74,300	67,115
Consumer	19,251	19,456
Other	11,669	11,507
Total loans, net of unearned fees	1,090,803	1,031,009
Less allowance for loan losses	11,472	11,167
Loans, net	$1,079,331	$1,019,842

The following presents loan maturities at December 31, 2015:

Dollars in thousands	Within 1 Year	After 1 but within 5 Years	After 5 Years
Commercial	$39,542	$39,968	$17,691
Commercial real estate	16,623	56,690	467,536
Construction and development	35,419	8,811	31,239
Residential real estate	7,669	15,344	323,350
Consumer	3,893	12,522	2,836
Other	669	1,312	9,689
	$103,815	$134,647	$852,341
Loans due after one year with:			
Variable rates		$138,002	
Fixed rates		848,986	
		$986,988	

The following table presents the contractual aging of the recorded investment in past due loans by class as of December 31, 2015 and 2014.

	At December 31, 2015					
	Past Due					
Dollars in thousands	30-59 days	60-89 days	> 90 days	Total	Current	> 90 days and Accruing
Commercial	$345	$26	$632	$1,003	$96,198	$—
Commercial real estate						
Owner-occupied	158	386	437	981	202,574	—
Non-owner occupied	1	—	856	857	336,437	—
Construction and development						
Land and land development	1,182	194	4,547	5,923	59,577	—
Construction	—	—	—	—	9,970	—
Residential mortgage						
Non-jumbo	2,276	2,647	1,591	6,514	215,236	—
Jumbo	—	—	—	—	50,313	—
Home equity	374	172	100	646	73,654	—

Consumer	155	41	92	288	18,963	9
Other	—	—	—	—	11,669	—
Total	$4,491	$3,466	$8,255	$16,212	$1,074,591	$9

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	At December 31, 2014					
	Past Due					
Dollars in thousands	30-59 days	60-89 days	> 90 days	Total	Current	> 90 days and Accruing
Commercial	$328	$117	$330	$775	$87,815	$—
Commercial real estate						
Owner-occupied	121	194	801	1,116	156,667	—
Non-owner occupied	146	—	406	552	316,584	—
Construction and development						
Land and land development	346	2,002	4,253	6,601	61,280	—
Construction	—	—	—	—	28,591	—
Residential mortgage						
Non-jumbo	4,104	2,719	1,498	8,321	211,750	—
Jumbo	—	—	2,626	2,626	50,253	—
Home equity	1,067	94	83	1,244	65,871	—
Consumer	260	42	63	365	19,091	—
Other	—	—	—	—	11,507	—
Total	$6,372	$5,168	$10,060	$21,600	$1,009,409	$—

Nonaccrual loans: The following table presents the nonaccrual loans included in the net balance of loans at December 31, 2015 and 2014.

Dollars in thousands	2015	2014
Commercial	$853	$392
Commercial real estate		
Owner-occupied	437	1,218
Non-owner occupied	5,518	626
Construction and development		
Land & land development	5,623	4,619
Construction	—	—
Residential mortgage		
Non-jumbo	2,987	2,663
Jumbo	—	2,626
Home equity	258	267
Consumer	83	83
Total	$15,759	$12,494

Impaired loans: Impaired loans include the following:

Loans which we risk-rate (consisting of loan relationships having aggregate balances in excess of $2.0 million, or loans exceeding $500,000 and exhibiting credit weakness) through our normal loan review procedures and which, based on current information and events, it is probable that we will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement. Risk-rated loans with insignificant delays or insignificant short falls in the amount of payments expected to be collected are not considered to be impaired.

Loans that have been modified in a troubled debt restructuring.

Both commercial and consumer loans are deemed impaired upon being contractually modified in a troubled debt restructuring. Troubled debt restructurings typically result from our loss mitigation activities and occur when we grant a concession to a borrower who is experiencing financial difficulty in order to minimize our economic loss and to avoid foreclosure or repossession of collateral. Once restructured in a troubled debt restructuring, a loan is generally

considered impaired until its maturity, regardless of whether the borrower performs under the modified terms. Although such a loan may be returned to accrual status if the criteria set forth in our accounting policy are met, the loan would continue to be evaluated for an asset-specific allowance for loan losses and we would continue to report the loan in the impaired loan table below.

The table below sets forth information about our impaired loans.

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Method Used to Measure Impairment of Impaired Loans
Dollars in thousands

	December 31,		Method used to measure
Loan Category	2015	2014	impairment
Commercial	$41	$132	Fair value of collateral
	201	362	Discounted cash flow
Commercial real estate			
Owner-occupied	783	1,683	Fair value of collateral
	7,616	9,124	Discounted cash flow
Non-owner occupied	5,728	508	Fair value of collateral
	7,722	5,999	Discounted cash flow
Construction and development			
Land & land development	6,597	11,998	Fair value of collateral
	2,177	2,310	Discounted cash flow
Residential mortgage			
Non-jumbo	1,753	1,676	Fair value of collateral
	4,378	5,252	Discounted cash flow
Jumbo	3,869	7,594	Fair value of collateral
	871	886	Discounted cash flow
Home equity	186	285	Fair value of collateral
	523	523	Discounted cash flow
Consumer	—	2	Fair value of collateral
	68	82	Discounted cash flow
Total	$42,513	$48,416	

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The following tables present loans individually evaluated for impairment at December 31, 2015 and 2014.

	December 31, 2015				
Dollars in thousands	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Balance	Interest Income Recognized while impaired
Without a related allowance					
Commercial	$242	$242	$—	$319	$17
Commercial real estate					
Owner-occupied	5,401	5,402	—	5,438	191
Non-owner occupied	10,740	10,741	—	9,982	310
Construction and development					
Land & land development	7,635	7,635	—	9,497	263
Construction	—	—	—	—	—
Residential real estate					
Non-jumbo	3,590	3,600	—	3,316	160
Jumbo	3,871	3,869	—	4,412	181
Home equity	709	709	—	709	32
Consumer	68	68	—	72	6
Total without a related allowance	$32,256	$32,266	$—	$33,745	$1,160
With a related allowance					
Commercial	$—	$—	$—	$—	$—
Commercial real estate					
Owner-occupied	2,997	2,997	45	3,003	135
Non-owner occupied	2,709	2,709	386	2,728	72
Construction and development					
Land & land development	1,139	1,139	85	1,154	—
Construction	—	—	—	—	—
Residential real estate					
Non-jumbo	2,530	2,531	226	2,552	114
Jumbo	871	871	34	878	43
Home equity	—	—	—	—	—
Consumer	—	—	—	—	—
Total with a related allowance	$10,246	$10,247	$776	$10,315	$364
Total					
Commercial	$30,863	$30,865	$516	$32,121	$988
Residential real estate	11,571	11,580	260	11,867	530
Consumer	68	68	—	72	6
Total	$42,502	$42,513	$776	$44,060	$1,524

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Explanation of Responses:

Dollars in thousands	December 31, 2014 Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Balance	Interest Income Recognized while impaired
Without a related allowance					
Commercial	$370	$369	$—	$430	$27
Commercial real estate					
Owner-occupied	5,362	5,361	—	5,309	192
Non-owner occupied	3,645	3,647	—	4,420	199
Construction and development					
Land & land development	13,410	13,410	—	14,149	483
Construction	—	—	—	—	—
Residential real estate					
Non-jumbo	4,289	4,300	—	3,853	185
Jumbo	7,589	7,594	—	7,761	241
Home equity	809	808	—	265	14
Consumer	84	84	—	36	2
Total without a related allowance	$35,558	$35,573	$—	$36,223	$1,343
With a related allowance					
Commercial	$125	$125	$81	$38	$—
Commercial real estate					
Owner-occupied	5,446	5,446	287	5,461	216
Non-owner occupied	2,860	2,860	74	1,003	40
Construction and development					
Land & land development	898	898	46	933	42
Construction	—	—	—	—	—
Residential real estate					
Non-jumbo	2,627	2,628	282	2,093	98
Jumbo	885	886	46	892	45
Home equity	—	—	—	—	—
Consumer	—	—	—	—	—
Total with a related allowance	$12,841	$12,843	$816	$10,420	$441
Total					
Commercial	$32,116	$32,116	$488	$31,743	$1,199
Residential real estate	16,199	16,216	328	14,864	583
Consumer	84	84	—	36	2
Total	$48,399	$48,416	$816	$46,643	$1,784

The average recorded investment of impaired loans during 2013 was $56.9 million, and $2.0 million interest income was recognized on those loans while impaired.

A modification of a loan is considered a troubled debt restructuring (“TDR”) when a borrower is experiencing financial difficulty and the modification constitutes a concession that we would not otherwise consider. This may include a transfer of real estate or other assets from the borrower, a modification of loan terms, or a combination of both. A

loan continues to be classified as a TDR for the life of the loan. Included in impaired loans are TDRs of $30.5 million, of which $28.9 million were current with respect to restructured contractual payments at December 31, 2015, and $34.7 million, of which $32.2 million were current with respect to restructured contractual payments at December 31, 2014. There were no commitments to lend additional funds under these restructurings at either balance sheet date.

The following table presents by class the TDRs that were restructured during 2015 and 2014. Generally, the modifications were extensions of term, modifying the payment terms from principal and interest to interest only for an extended period, or reduction in interest rate. All TDRs are evaluated individually for allowance for loan loss purposes.

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Dollars in thousands	2015 Number of Modifications	Pre-modification Recorded Investment	Post-modification Recorded Investment	2014 Number of Modifications	Pre-modification Recorded Investment	Post-modification Recorded Investment
Commercial	—	$ —	$ —	3	$ 82	$ 86
Commercial real estate						
Non-owner occupied	—	—	—	1	2,154	2,154
Construction and development						
Land & land development	1	1,182	1,182	—	—	—
Residential real estate						
Non-jumbo	1	25	25	5	1,044	1,080
Home equity	—	—	—	1	411	523
Consumer	1	2	2	1	18	18
Total	3	$ 1,209	$ 1,209	11	$ 3,709	$ 3,861

The following table presents defaults during the stated period of TDRs that were restructured during the past twelve months. For purposes of these tables, a default is considered as either the loan was past due 30 days or more at any time during the period, or the loan was fully or partially charged off during the period.

Dollars in thousands	2015 Number of Defaults	Recorded Investment at Default Date	2014 Number of Defaults	Recorded Investment at Default Date
Commercial	—	$—	3	$86
Construction and development				
Land & land development	1	1,182	—	—
Residential real estate				
Non-jumbo	—	—	1	167
Total	1	$1,182	4	$253

The following table details the activity regarding TDRs by loan type during 2015, and the related allowance on TDRs.
2015

	Construction & Land Development			Commercial Real Estate		Residential Real Estate					
Dollars in thousands	Land & Land Develop-ment	Construc-tion	Commer-cial	Owner Occupied	Non-Owner Occupied	Non-jumbo	Jumbo	Home Equity	Con-sumer	Other	Total
Troubled debt restructurings											
Balance January 1, 2015	$5,786	$—	$410	$9,501	$6,219	$6,245	$5,937	$523	$85	$—	$34,706
Additions	1,182	—	—	—	—	25	—	—	2	—	1,209
Charge-offs	(168)	—	—	—	—	—	—	—	—	—	(168)
Net (paydowns) advances	(2,611)	—	(168)	(187)	(160)	(774)	(1,302)	—	(20)	—	(5,222)
	—	—	—	—	—	—	—	—	—	—	—

Transfer into foreclosed properties											
Refinance out of TDR status	—	—	—	—	—	—	—	—	—	—	—
Balance, December 31, 2015	$4,189	$—	$242	$9,314	$6,059	$5,496	$4,635	$523	$67	$—	$30,525
Allowance related to troubled debt restructurings	$—	$—	$—	$190	$12	$226	$35	$—	$—	$—	$463

We categorize loans into risk categories based on relevant information about the ability of borrowers to service their debt such as current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. We analyze loans individually by classifying the loans as to credit risk. We internally

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grade all commercial loans at the time of loan origination. In addition, we perform an annual loan review on all non-homogenous commercial loan relationships with an aggregate exposure of $2 million, at which time these loans are re-graded. We use the following definitions for our risk grades:

Pass: Loans graded as Pass are loans to borrowers of acceptable credit quality and risk. They are higher quality loans that do not fit any of the other categories described below.

OLEM (Special Mention): Commercial loans categorized as OLEM are potentially weak. The credit risk may be relatively minor yet represent a risk given certain specific circumstances. If the potential weaknesses are not monitored or mitigated, the asset may weaken or inadequately protect our position in the future.

Substandard: Commercial loans categorized as Substandard are inadequately protected by the borrower's ability to repay, equity, and/or the collateral pledged to secure the loan. These loans have identified weaknesses that could hinder normal repayment or collection of the debt. These loans are characterized by the distinct possibility that we will sustain some loss if the identified weaknesses are not mitigated.

Doubtful: Commercial loans categorized as Doubtful have all the weaknesses inherent in those loans classified as Substandard, with the added elements that the full collection of the loan is improbable and the possibility of loss is high.

Loss: Loans classified as loss are considered to be non-collectible and of such little value that their continuance as a bankable asset is not warranted. This does not mean that the loan has absolutely no recovery value, but rather it is neither practical nor desirable to defer writing off the loan, even though partial recovery may be obtained in the future.

The following table presents the recorded investment in construction and development, commercial, and commercial real estate loans which are generally evaluated based upon the internal risk ratings defined above.

Loan Risk Profile by Internal Risk Rating

	Construction and Development						Commercial Real Estate			
	Land and Land Development		Construction		Commercial		Owner Occupied		Non-Owner Occupied	
Dollars in thousands	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Pass	$57,155	$53,873	$9,970	$28,591	$95,174	$86,361	$202,226	$155,189	$329,861	$306,710
OLEM (Special Mention)	1,598	1,673	—	—	1,295	1,837	546	1,064	1,602	8,933
Substandard	6,747	12,335	—	—	732	392	783	1,530	5,831	1,493
Doubtful	—	—	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—	—	—
Total	$65,500	$67,881	$9,970	$28,591	$97,201	$88,590	$203,555	$157,783	$337,294	$317,136

The following table presents the recorded investment in consumer, residential real estate, and home equity loans, which are generally evaluated based on the aging status of the loans, which was previously presented, and payment activity.

	Performing		Nonperforming	
Dollars in thousands	2015	2014	2015	2014
Residential real estate				
Non-jumbo	$218,763	$217,408	$2,987	$2,663
Jumbo	50,313	50,253	—	2,626

Home Equity	74,042	66,848	258	267
Consumer	19,149	19,373	102	83
Other	11,669	11,507	—	—
Total	$373,936	$365,389	$3,347	$5,639

Industry concentrations: At December 31, 2015 and 2014, we had no concentrations of loans to any single industry in excess of 10% of total loans.

Loans to related parties: We have had, and may be expected to have in the future, banking transactions in the ordinary course of business with our directors, principal officers, their immediate families and affiliated companies in which they are principal

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shareholders (commonly referred to as related parties). These transactions have been, in our opinion, on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others.

The following presents the activity with respect to related party loans aggregating $60,000 or more to any one related party (other changes represent additions to and changes in director and executive officer status):

Dollars in thousands	2015	2014
Balance, beginning	$20,586	$18,577
Additions	11,095	13,842
Amounts collected	(6,142)	(11,833)
Other changes, net	(2,565)	—
Balance, ending	$22,974	$20,586

Loan commitments: ASC Topic 815, Derivatives and Hedging, requires that commitments to make mortgage loans should be accounted for as derivatives if the loans are to be held for sale, because the commitment represents a written option and accordingly is recorded at the fair value of the option liability.

NOTE 6. ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses is maintained at a level considered adequate to provide for our estimate of probable credit losses inherent in the loan portfolio. The allowance is increased by provisions charged to operating expense and reduced by net charge-offs. Loans are charged against the allowance for loan losses when we believe that collectability is unlikely. While we use the best information available to make our evaluation, future adjustments may be necessary if there are significant changes in conditions.

The allowance is comprised of three distinct reserve components: (1) specific reserves related to loans individually evaluated, (2) quantitative reserves related to loans collectively evaluated, and (3) qualitative reserves related to loans collectively evaluated. A summary of the methodology we employ on a quarterly basis with respect to each of these components in order to evaluate the overall adequacy of our allowance for loan losses is as follows.

Specific Reserve for Loans Individually Evaluated

First, we identify loan relationships having aggregate balances in excess of $500,000 and that may also have credit weaknesses. Such loan relationships are identified primarily through our analysis of internal loan evaluations, past due loan reports, and loans adversely classified by regulatory authorities. Each loan so identified is then individually evaluated to determine whether it is impaired – that is, based on current information and events, it is probable that we will be unable to collect all amounts due in accordance with the contractual terms of the underlying loan agreement. Substantially all of our impaired loans historically have been collateral dependent, meaning repayment of the loan is expected or is considered to be provided solely from the sale of the loan’s underlying collateral. For such loans, we measure impairment based on the fair value of the loan’s collateral, which is generally determined utilizing current appraisals. A specific reserve is established in an amount equal to the excess, if any, of the recorded investment in each impaired loan over the fair value of its underlying collateral, less estimated costs to sell. Our policy is to re-evaluate the fair value of collateral dependent loans at least every twelve months unless there is a known deterioration in the collateral’s value, in which case a new appraisal is obtained. Beginning in 2014, for purposes of loans that have been modified in a troubled debt restructuring and not internally graded as substandard, doubtful, or loss ("performing TDRs") we began measuring impairment using the discounted cash flows method. Under this method, a specific reserve is established in an amount equal to the excess, if any, of the recorded investment in each impaired loan over its discounted cash flows.

Quantitative Reserve for Loans Collectively Evaluated

Second, we stratify the loan portfolio into the following ten loan pools: land and land development, construction, commercial, commercial real estate - owner occupied, commercial real estate - non-owner occupied, conventional residential mortgage, jumbo residential mortgage, home equity, consumer, and other. Quantitative reserves relative to each loan pool are established as follows: for all loan segments detailed above an allocation equaling 100% of the respective pool's average 12 month historical net loan charge-off rate (determined based upon the most recent twelve quarters) is applied to the aggregate recorded investment in the pool of loans.

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Qualitative Reserve for Loans Collectively Evaluated

Third, we consider the necessity to adjust our average historical net loan charge-off rates relative to each of the above ten loan pools for potential risks factors that could result in actual losses deviating from prior loss experience. For example, if we observe a significant increase in delinquencies within the conventional mortgage loan pool above historical trends, an additional allocation to the average historical loan charge-off rate is applied. Such qualitative risk factors considered are: (1) levels of and trends in delinquencies and impaired loans, (2) levels of and trends in charge-offs and recoveries, (3) trends in volume and term of loans, (4) effects of any changes in risk selection and underwriting standards, and other changes in lending policies, procedures, and practice, (5) experience, ability, and depth of lending management and other relevant staff, (6) national and local economic trends and conditions, (7) industry conditions, and (8) effects of changes in credit concentrations.

An analysis of the allowance for loan losses for the years ended December 31, 2015, 2014, and 2013 is as follows:

Dollars in thousands	2015	2014	2013
Balance, beginning of year	$11,167	$12,659	$17,933
Losses:			
Commercial	77	390	723
Commercial real estate			
Owner occupied	559	11	1,031
Non-owner occupied	178	—	9
Construction and development			
Land and land development	457	3,535	3,596
Construction	—	—	—
Residential real estate			
Non-jumbo	417	435	541
Jumbo	208	65	4,741
Home equity	76	14	77
Consumer	69	265	79
Other	110	118	162
Total	2,151	4,833	10,959
Recoveries:			
Commercial	10	34	12
Commercial real estate			
Owner occupied	290	40	8
Non-owner occupied	13	318	674
Construction and development			
Land and land development	456	298	187
Construction	—	—	—
Real estate - mortgage			
Non-jumbo	107	87	127
Jumbo	96	163	6
Home equity	3	4	5
Consumer	105	74	79
Other	126	73	87
Total	1,206	1,091	1,185
Net losses	945	3,742	9,774
Provision for loan losses	1,250	2,250	4,500
Balance, end of year	$11,472	$11,167	$12,659

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Activity in the allowance for loan losses by loan class during 2015 and 2014 is as follows:

2015	Construction & Land Development			Commercial Real Estate		Residential Real Estate					
Dollars in thousands	Land & Land Develop-ment	Construc-tion	Commer-cial	Owner Occupied	Non-Owner Occupied	Non-jumbo	Jumbo	Home Equity	Con-sumer	Other	Total
Allowance for loan losses											
Beginning balance	$3,417	$427	$1,204	$927	$1,316	$1,280	$2,081	$187	$97	$231	$11,167
Charge-offs	457	—	77	559	178	417	208	76	69	110	2,151
Recoveries	456	—	10	290	13	107	96	3	105	126	1,206
Provision	(564)	(412)	(356)	931	1,826	283	(376)	139	(74)	(147)	1,250
Ending balance	$2,852	$15	$781	$1,589	$2,977	$1,253	$1,593	$253	$59	$100	$11,472
Allowance related to:											
Loans individually evaluated for impairment	$85	$—	$—	$45	$386	$225	$35	$—	$—	$—	$776
Loans collectively evaluated for impairment	2,767	15	781	1,544	2,591	1,028	1,558	253	59	100	10,696
Total	$2,852	$15	$781	$1,589	$2,977	$1,253	$1,593	$253	$59	$100	$11,472
Loans											
Loans individually evaluated for impairment	$8,774	$—	$242	$8,399	$13,450	$6,131	$4,740	$709	$68	$—	$42,513
Loans collectively evaluated for impairment	56,726	9,970	96,959	195,156	323,844	215,619	45,573	73,591	19,183	11,669	$1,048,290
Total	$65,500	$9,970	$97,201	$203,555	$337,294	$221,750	$50,313	$74,300	$19,251	$11,669	$1,090,803

2014	Construction & Land Development			Commercial Real Estate		Residential Real Estate					
Dollars in thousands	Land & Land	Construc-tion	Commer-cial	Owner Occupied	Non-Owner	Non-jumbo	Jumbo	Home Equity	Con-sumer	Other	Total

	Develop-ment				Occupied						
Allowance for loan losses											
Beginning balance	$5,455	$269	$1,324	$969	$641	$1,842	$1,888	$173	$47	$51	$12,659
Charge-offs	3,535	—	390	11	—	435	65	14	265	118	4,833
Recoveries	298	—	34	40	318	87	163	4	74	73	1,091
Provision	1,199	158	236	(71)	357	(214)	95	24	241	225	2,250
Ending balance	$3,417	$427	$1,204	$927	$1,316	$1,280	$2,081	$187	$97	$231	$11,167
Allowance related to:											
Loans individually evaluated for impairment	$46	$—	$81	$286	$74	$282	$46	$—	$—	$—	$815
Loans collectively evaluated for impairment	3,371	427	1,123	641	1,242	998	2,035	187	97	231	10,352
Total	$3,417	$427	$1,204	$927	$1,316	$1,280	$2,081	$187	$97	$231	$11,167
Loans											
Loans individually evaluated for impairment	$14,308	$—	$495	$10,807	$6,507	$6,927	$8,480	$808	$84	$—	$48,416
Loans collectively evaluated for impairment	53,573	28,591	88,095	146,976	310,629	213,144	44,399	66,307	19,372	11,507	$982,593
Total	$67,881	$28,591	$88,590	$157,783	$317,136	$220,071	$52,879	$67,115	$19,456	$11,507	$1,031,009

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NOTE 7. PROPERTY HELD FOR SALE

Property held for sale consists of premises qualifying as held for sale under ASC Topic 360 Property, Plant, and Equipment, and of real estate acquired through foreclosure on loans secured by such real estate. Qualifying premises are transferred to property held for sale at the lower of carrying value or estimated fair value less anticipated selling costs. Foreclosed property is recorded at the lower of the related loans recorded investment or estimated fair value less anticipated selling costs based upon the property's appraised value at the date of foreclosure, with any difference between the fair value of foreclosed property and the carrying value of the related loan charged to the allowance for loan losses. We perform periodic valuations of property held for sale subsequent to transfer. Changes in value subsequent to transfer are recorded in noninterest expense. Gains or losses not previously recognized resulting from the sale of property held for sale is recognized on the date of sale and is included in noninterest expense. Depreciation is not recorded on property held for sale. Expenses incurred in connection with operating foreclosed properties are charged to noninterest expense.

The following table presents the activity of property held for sale during 2015 and 2014.

Dollars in thousands	2015	2014
Beginning balance	$37,529	$53,392
Acquisitions	2,617	2,673
Capitalized improvements	39	87
Dispositions	(12,203)	(14,852)
Valuation adjustments	(2,415)	(3,771)
Balance at year end	$25,567	$37,529

NOTE 8. PREMISES AND EQUIPMENT

Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed primarily by the straight-line method for premises and equipment over the estimated useful lives of the assets. The estimated useful lives employed are on average 30 years for premises and 3 to 10 years for furniture and equipment. Repairs and maintenance expenditures are charged to operating expenses as incurred. Major improvements and additions to premises and equipment, including construction period interest costs, are capitalized. No interest was capitalized during 2015, 2014, or 2013.

The major categories of premises and equipment and accumulated depreciation at December 31, 2015 and 2014 are summarized as follows:

Dollars in thousands	2015	2014
Land	$6,308	$6,308
Buildings and improvements	21,461	20,202
Furniture and equipment	14,552	13,223
	42,321	39,733
Less accumulated depreciation	20,749	19,673
Total premises and equipment, net	$21,572	$20,060

Depreciation expense for the years ended December 31, 2015, 2014 and 2013 approximated $1.08 million, $1.07 million, and $1.16 million, respectively.

NOTE 9. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill and certain other intangible assets with indefinite useful lives are not amortized into net income over an estimated life, but rather are tested at least annually for impairment. Intangible assets determined to have definite useful lives are amortized over their estimated useful lives and also are subject to impairment testing.

In accordance with ASU 2011-8, Intangibles - Goodwill and Other (Topic 350) - Testing Goodwill for Impairment, which amends Topic 350, Intangibles – Goodwill and Other, entities are permitted to first assess qualitative factors (Step 0) to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350. The more-than-likely-than-not threshold is defined as having a likelihood of more than 50 percent. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying

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amount, then performing the two-step impairment test is unnecessary. However, if the entity concludes otherwise, then it is required to perform the first step (Step 1) of the two-step impairment test by calculating the fair value of the reporting unit and comparing the fair value with the carrying amount of the reporting unit. A fair value is determined based on at least one of three various market valuation methodologies. If the fair value equals or exceeds the book value, no write-down of recorded goodwill is necessary. If the fair value is less than the book value, an expense may be required on our books to write down the goodwill to the proper carrying value. The second step (Step 2) of impairment testing is necessary only if the reporting unit does not pass Step 1. Step 2 compares the implied fair value of the reporting unit goodwill with the carrying amount of the goodwill for the reporting unit. The implied fair value of goodwill is determined in the same manner as goodwill that is recognized in a business combination.

During the third quarter, we completed Step 1 of the required annual impairment test for our insurance services reporting unit for 2015 and determined that no impairment write-offs were necessary. We performed the Step 0 qualitative assessment of the goodwill relative to our community banking reporting unit, and determined that it was not more likely than not that the fair value was less than its carrying value and noted no indicators of impairment.

In addition, at December 31, 2015 and December 31, 2014, we had $1.30 million and $1.50 million in unamortized identifiable customer intangible assets recorded in accordance with ASC Topic 805, Business Combinations.

	Goodwill Activity		
Dollars in thousands	Community Banking	Insurance Services	Total
Balance, January 1, 2015	$1,488	$4,710	$6,198
Acquired goodwill, net	—	—	—
Balance, December 31, 2015	$1,488	$4,710	$6,198

	Other Intangible Assets December 31, 2015			December 31, 2014		
Dollars in thousands	Community Banking	Insurance Services	Total	Community Banking	Insurances Services	Total
Unidentifiable intangible assets						
Gross carrying amount	$2,268	$—	$2,268	$2,268	$—	$2,268
Less: accumulated amortization	2,268	—	2,268	2,268	—	2,268
Net carrying amount	$—	$—	$—	$—	$—	$—
Identifiable intangible assets						
Gross carrying amount	$—	$3,000	$3,000	$—	$3,000	$3,000
Less: accumulated amortization	—	1,700	1,700	—	1,500	1,500
Net carrying amount	$—	$1,300	$1,300	$—	$1,500	$1,500

We recorded amortization expense of $200,000 for the year ended December 31, 2015, $250,000 for the year ended December 31, 2014, and $351,000 for the year ended December 31, 2013 relative to our other intangible assets. Annual amortization is expected to be approximately $200,000 for each of the years ending 2016 through 2020.

NOTE 10. DEPOSITS

The following is a summary of interest bearing deposits by type as of December 31, 2015 and 2014:

Dollars in thousands	2015	2014
Demand deposits, interest bearing	$215,721	$204,030
Savings deposits	266,825	253,578
Time deposits	465,153	488,279
Total	$947,699	$945,887

Included in time deposits are deposits acquired through a third party (“brokered deposits”) totaling $126.5 million and $146.9 million at December 31, 2015 and 2014, respectively.

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A summary of the scheduled maturities for all time deposits as of December 31, 2015 is as follows:

Dollars in thousands	Amount
2016	$219,703
2017	74,574
2018	64,684
2019	35,320
2020	34,628
Thereafter	36,244
Total	$465,153

Time certificates of deposit in denominations of $100,000 or more totaled $342.7 million and $359.2 million at December 31, 2015 and 2014, respectively. The following is a summary of the maturity distribution of all certificates of deposit in denominations of $100,000 or more as of December 31, 2015:

Dollars in thousands	Amount	Percent	
Three months or less	$46,343	13.5	%
Three through six months	53,533	15.6	%
Six through twelve months	54,127	15.8	%
Over twelve months	188,670	55.1	%
Total	$342,673	100.00	%

The aggregate amount of time deposits in denominations that meet or exceed the FDIC insurance limit totaled $154.5 million at December 31, 2015.

At December 31, 2015 and 2014, our deposits of related parties including directors, executive officers, and their related interests approximated $21.2 million and $21.4 million, respectively.

NOTE 11. BORROWED FUNDS

Our subsidiary bank is a member of the Federal Home Loan Bank ("FHLB"). Membership in the FHLB makes available short-term and long-term advances under collateralized borrowing arrangements with each subsidiary bank. All FHLB advances are collateralized primarily by similar amounts of residential mortgage loans, certain commercial loans, mortgage backed securities and securities of U. S. Government agencies and corporations. We had $92.0 million available on a short term line of credit with the Federal Reserve Bank at December 31, 2015, which is primarily secured by commercial and industrial loans and consumer loans. We also had $6 million available on an unsecured line of credit with a correspondent bank.

At December 31, 2015, our subsidiary banks had combined additional borrowings availability of $377.8 million from the FHLB. Short-term FHLB advances are granted for terms of 1 to 365 days and bear interest at a fixed or variable rate set at the time of the funding request.

Short-term borrowings: At December 31, 2015, we had $98.0 million borrowing availability through credit lines and Federal funds purchased agreements. A summary of short-term borrowings is presented below.

	2015		2014	
Dollars in thousands	Short-term FHLB Advances	Federal Funds Purchased and Lines of Credit	Short-term FHLB Advances	Federal Funds Purchased and Lines of Credit
Balance at December 31	$167,950	$3,444	$120,950	$2,683
Average balance outstanding for the period	146,412	4,690	94,982	5,804
	171,160	7,438	136,800	8,976

Maximum balance outstanding at any month end during period				
Weighted average interest rate for the period	0.43 %	0.50 %	0.31 %	0.25 %
Weighted average interest rate for balances outstanding at December 31	0.35 %	0.26 %	0.31 %	0.25 %

Federal funds purchased and repurchase agreements mature the next business day. The securities underlying the repurchase agreements are under our control and secure the total outstanding daily balances. We generally account for securities sold under agreements to repurchase as collateralized financing transactions and record them at the amounts at which the securities were sold, plus accrued interest. Securities, generally U.S. government and Federal agency securities, pledged as collateral under

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these financing arrangements cannot be sold or repledged by the secured party. The fair value of collateral provided is continually monitored and additional collateral is provided as needed.

Long-term borrowings: Our long-term borrowings of $75.6 million and $77.5 million at December 31, 2015 and 2014, respectively, consisted primarily of advances from the FHLB and structured reverse repurchase agreements with two unaffiliated institutions. All FHLB advances are collateralized primarily by similar amounts of residential mortgage loans, certain commercial loans, mortgage backed securities and securities of U. S. Government agencies and corporations.

	Balance at December 31,	
Dollars in thousands	2015	2014
Long-term FHLB advances	$873	$977
Long-term reverse repurchase agreements	72,000	72,000
Term loan	2,708	4,513
Total	$75,581	$77,490

The term loan at December 31, 2015 is secured by the common stock of our subsidiary bank, bears a variable interest rate of prime minus 50 basis points with a final maturity of 2017. Our long term FHLB borrowings and reverse repurchase agreements bear both fixed and variable rates and mature in varying amounts through the year 2026.

The average interest rate paid on long-term borrowings during 2015 was 4.39% compared to 4.16% in 2014.

Subordinated debentures: During 2015, we prepaid in full the $16.8 million subordinated debentures that were outstanding at December 31, 2014. The subordinated debt qualified as Tier 2 capital under Federal Reserve Board guidelines until the debt was within 5 years of its maturity; thereafter the amount qualifying as Tier 2 capital was reduced by 20 percent each year until maturity. During 2009, we issued $6.8 million in subordinated debt, of which $5 million was issued to an affiliate of a director of Summit. We also issued $1.0 million and $0.8 million to two unrelated parties. These three issuances had an interest rate of 10 percent per annum, a term of 10 years, and were not prepayable by us within the first five years. During 2008, we issued $10 million of subordinated debt to an unrelated institution, which had a variable interest rate of 1 month LIBOR plus 275 basis points and a term of 7.5 years.

Subordinated debentures owed to unconsolidated subsidiary trusts: We have three statutory business trusts that were formed for the purpose of issuing mandatorily redeemable securities (the “capital securities”) for which we are obligated to third party investors and investing the proceeds from the sale of the capital securities in our junior subordinated debentures (the “debentures”). The debentures held by the trusts are their sole assets. Our subordinated debentures totaled $19.6 million at December 31, 2015 and 2014.

In October 2002, we sponsored SFG Capital Trust I, in March 2004, we sponsored SFG Capital Trust II, and in December 2005, we sponsored SFG Capital Trust III, of which 100% of the common equity of each trust is owned by us. SFG Capital Trust I issued $3.5 million in capital securities and $109,000 in common securities and invested the proceeds in $3.61 million of debentures. SFG Capital Trust II issued $7.5 million in capital securities and $232,000 in common securities and invested the proceeds in $7.73 million of debentures. SFG Capital Trust III issued $8.0 million in capital securities and $248,000 in common securities and invested the proceeds in $8.25 million of debentures. Distributions on the capital securities issued by the trusts are payable quarterly at a variable interest rate equal to 3 month LIBOR plus 345 basis points for SFG Capital Trust I, 3 month LIBOR plus 280 basis points for SFG Capital Trust II, and 3 month LIBOR plus 145 basis points for SFG Capital Trust III, and equals the interest rate earned on the debentures held by the trusts, and is recorded as interest expense by us. The capital securities are subject to mandatory redemption in whole or in part, upon repayment of the debentures. We have entered into agreements which, taken collectively, fully and unconditionally guarantee the capital securities subject to the terms of the guarantee. The debentures of each Capital Trust are redeemable by us quarterly.

The capital securities held by SFG Capital Trust I, SFG Capital Trust II, and SFG Capital Trust III qualify as Tier 1 capital under Federal Reserve Board guidelines. In accordance with these Guidelines, trust preferred securities generally are limited to 25% of Tier 1 capital elements, net of goodwill. The amount of trust preferred securities and certain other elements in excess of the limit can be included in Tier 2 capital.

A summary of the maturities of all long-term borrowings and subordinated debentures for the next five years and thereafter is as follows:

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Dollars in thousands	Long-term borrowings	Subordinated debentures owed to unconsolidated subsidiary trusts
2016	$28,911	$—
2017	919	—
2018	45,017	—
2019	18	—
2020	18	—
Thereafter	698	19,589
Total	$75,581	$19,589

NOTE 12. DERIVATIVE FINANCIAL INSTRUMENTS

We use derivative instruments primarily to protect against the risk of adverse interest rate movements on the cash flows of certain liabilities. Derivative instruments represent contracts between parties that usually require little or no initial net investment and result in one party delivering cash or another type of asset to the other party based upon a notional amount and an underlying as specified in the contract. A notional amount represents the number of units of a specific item, such as currency units. An underlying represents a variable, such as an interest rate or price index. The amount of cash or other asset delivered from one party to the other is determined based upon the interaction of the notional amount of the contract with the underlying. Derivatives can also be implicit in certain contracts and commitments.

As with any financial instrument, derivative instruments have inherent risks, primarily market and credit risk. Market risk associated with changes in interest rates is managed by establishing and monitoring limits as to the degree of risk that may be undertaken as part of our overall market risk monitoring process. Credit risk occurs when a counterparty to a derivative contract with an unrealized gain fails to perform according to the terms of the agreement. Credit risk is managed by monitoring the size and maturity structure of the derivative portfolio, and applying uniform credit standards to all activities with credit risk.

In accordance with ASC 815, Derivatives and Hedging, all derivative instruments are recorded on the balance sheet at fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, depending on the type of hedge transaction.

Fair-value hedges – For transactions in which we are hedging changes in fair value of an asset, liability, or a firm commitment, changes in the fair value of the derivative instrument are generally offset in the income statement by changes in the hedged item's fair value.

Cash-flow hedges – For transactions in which we are hedging the variability of cash flows related to a variable-rate asset, liability, or a forecasted transaction, changes in the fair value of the derivative instrument are reported in other comprehensive income. The gains and losses on the derivative instrument, which are reported in comprehensive income, are reclassified to earnings in the periods in which earnings are impacted by the variability of cash flows of the hedged item.

The ineffective portion of all hedges is recognized in current period earnings.

Other derivative instruments – For risk management purposes that do not meet the hedge accounting criteria and, therefore, do not qualify for hedge accounting. These derivative instruments are accounted for at fair value with

changes in fair value recorded in the income statement.

We have entered into three forward-starting, pay-fixed/receive LIBOR interest rate swaps. $40 million notional with an effective date of July 18, 2016, was designated as a cash flow hedge of $40 million of forecasted variable rate Federal Home Loan Bank advances. Under the terms of this swap we will pay a fixed rate of 2.98% for a 3 year period. $30 million notional with an effective date of April 18, 2016, was designated as a cash flow hedge of $30 million of forecasted variable rate Federal Home Loan Bank advances. Under the terms of this swap we will pay a fixed rate of 2.89% for a 4.5 year period. $40 million notional with an effective date of October 18, 2016, was designated as a cash flow hedge of $40 million of forecasted variable rate Federal Home Loan Bank advances. Under the terms of this swap we will pay a fixed rate of 2.84% for a 3 year period.

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We have entered into two pay fixed/receive variable interest rate swaps to hedge the fair value variability of two commercial fixed rate loans with the same principal, amortization, and maturity terms of the underlying loans, which are designated as fair value hedges. Under the terms of a $9.95 million notional swap with an effective date of January 15, 2015, we will pay a fixed rate of 4.33% for a 10 year period. Under the terms of an $11.3 million notional swap with an effective date of December 18, 2015, we will pay a fixed rate of 4.30% for a 10 year period.

A summary of our derivative financial instruments as of December 31, 2015 and 2014 follows:

	December 31, 2015			
		Derivative Fair Value		Net Ineffective
Dollars in thousands	Notional Amount	Asset	Liability	Hedge Gains/(Losses)
CASH FLOW HEDGES				
Pay-fixed/receive-variable interest rate swaps				
Long-term borrowings	$110,000	$—	$5,071	$—
FAIR VALUE HEDGES				
Pay-fixed/receive-variable interest rate swaps				
Commercial loans	$21,250	$94	$95	$—

	December 31, 2014			
		Derivative Fair Value		Net Ineffective
Dollars in thousands	Notional Amount	Asset	Liability	Hedge Gains/(Losses)
CASH FLOW HEDGES				
Pay-fixed/receive-variable interest rate swaps				
Long term borrowings	$110,000	$—	$2,911	$—

NOTE 13. INCOME TAXES

The consolidated provision for income taxes includes Federal and state income taxes and is based on pretax net income reported in the consolidated financial statements, adjusted for transactions that may never enter into the computation of income taxes payable. Deferred tax assets and liabilities are determined based on the differences between the financial statement and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. Valuation allowances are established when deemed necessary to reduce deferred tax assets to the amount expected to be realized.

ASC Topic 740 Income Taxes clarifies the accounting and disclosure for uncertain tax positions, as defined. ASC Topic 740 requires that a tax position meet a "probable recognition threshold" for the benefit of the uncertain tax position to be recognized in the financial statements. A tax position that fails to meet the probable recognition threshold will result in either reduction of a current or deferred tax asset or receivable, or recording a current or deferred tax liability. ASC Topic 740 also provides guidance on measurement, derecognition of tax benefits, classification, interim period accounting disclosure, and transition requirements in accounting for uncertain tax positions.

The components of applicable income tax expense for the years ended December 31, 2015, 2014 and 2013, are as follows:

Dollars in thousands	2015	2014	2013
Current			
Federal	$6,219	$3,380	$861

State	484	294	41
	6,703	3,674	902
Deferred			
Federal	165	920	1,587
State	25	84	199
	190	1,004	1,786
Total	$6,893	$4,678	$2,688

Reconciliation between the amount of reported income tax expense and the amount computed by multiplying the statutory income tax rates by book pretax income for the years ended December 31, 2015, 2014 and 2013 is as follows:

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Dollars in thousands	2015 Amount	Percent	2014 Amount	Percent	2013 Amount	Percent
Computed tax at applicable statutory rate	$8,048	35	$5,612	35	$3,765	35
Increase (decrease) in taxes resulting from:						
Tax-exempt interest and dividends, net	(1,047)	(4)	(996)	(6)	(932)	(9)
State income taxes, net of Federal income tax benefit	331	1	245	1	156	1
Other, net	(439)	(2)	(183)	(1)	(301)	(3)
Applicable income taxes	$6,893	30	$4,678	29	$2,688	24

Deferred income taxes reflect the impact of "temporary differences" between amounts of assets and liabilities for financial reporting purposes and such amounts as measured for tax purposes. Deferred tax assets and liabilities represent the future tax return consequences of temporary differences, which will either be taxable or deductible when the related assets and liabilities are recovered or settled. Valuation allowances are established when deemed necessary to reduce deferred tax assets to the amount expected to be realized. Our West Virginia net operating loss carryforward expires in 2028.

The tax effects of temporary differences, which give rise to our deferred tax assets and liabilities as of December 31, 2015 and 2014, are as follows:

Dollars in thousands	2015	2014
Deferred tax assets		
Allowance for loan losses	$4,245	$4,128
Depreciation	168	168
Foreclosed properties	4,506	5,197
Deferred compensation	2,554	2,265
Other deferred costs and accrued expenses	387	349
Other-than-temporarily impaired securities	257	257
Net unrealized loss on interest rate swaps	1,876	1,077
NOL and tax credit carryforwards	25	37
Total	14,018	13,478
Deferred tax liabilities		
Accretion on tax-exempt securities	3	8
Net unrealized gain on securities available for sale	1,609	2,297
Purchase accounting adjustments and goodwill	743	806
Total	2,355	3,111
Net deferred tax assets	$11,663	$10,367

In accordance with ASC Topic 740, we concluded that there were no significant uncertain tax positions requiring recognition in the consolidated financial statements. The evaluation was performed for the years ended 2012 through 2015, the tax years which remain subject to examination by major tax jurisdictions.

We may from time to time be assessed interest or penalties associated with tax liabilities by major tax jurisdictions, although any such assessments are estimated to be minimal and immaterial. To the extent we have received an assessment for interest and/or penalties; it has been classified in the consolidated statements of income as a component of other noninterest expense.

We are currently open to audit under the statute of limitations by the Internal Revenue Service for the years ended December 31, 2012 through 2014. Tax years 2013 through 2014 remain subject to West Virginia State examination.

NOTE 14. EMPLOYEE BENEFITS

Retirement Plans: We have defined contribution profit-sharing plans with 401(k) provisions covering substantially all employees. Contributions to the plans are at the discretion of the Board of Directors. Contributions made to the plans and charged to expense were $360,000, $362,000, and $354,000 for the years ended December 31, 2015, 2014, and 2013, respectively.

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Employee Stock Ownership Plan: We have an Employee Stock Ownership Plan ("ESOP"), which enables eligible employees to acquire shares of our common stock. The cost of the ESOP is borne by us through annual contributions to an Employee Stock Ownership Trust in amounts determined by the Board of Directors.

The expense recognized by us is based on cash contributed or committed to be contributed by us to the ESOP during the year. Contributions to the ESOP for the years ended December 31, 2015, 2014 and 2013 were $429,000, $714,000, and $173,000 respectively. Dividends paid by us to the ESOP are reported as a reduction to retained earnings. The ESOP owned 588,193 and 321,449 shares of our common stock at December 31, 2015 and 2014, respectively, all of which were purchased at the prevailing market price and all but 181,822 unallocated shares at December 31, 2015 are considered outstanding for earnings per share computations.

On July 30, 2015, our ESOP purchased 225,000 shares of Summit Financial Group Inc. common stock in a privately negotiated transaction, at $10.80 per share for a total purchase price of $2,430,000. On July 21, 2015, our Board of Directors approved the company lending to our ESOP $2,250,000 to partially finance the purchase, and was used to purchase 208,333 unallocated shares.

In accordance with ASC 718, Compensation - Stock Compensation, this purchase of unallocated ESOP shares will be shown as a reduction of shareholders' equity, similar to a purchase of treasury stock. The loan receivable from the ESOP to the Company is not reported as an asset nor is the debt of the ESOP reported as a liability on the Company's Consolidated Balance Sheets. Cash dividends on allocated shares (those credited to ESOP participants' accounts) are recorded as a reduction of shareholders' equity and distributed directly to participants' accounts. Cash dividends on unallocated shares (those held by the ESOP not yet credited to participants' accounts) are used to pay a portion of the ESOPs debt service requirements.

Unallocated ESOP shares will be allocated to ESOP participants ratably as the ESOP's loan is repaid. When the shares are committed to be released and become available for allocation to plan participants, the then fair value of such shares will be charged to compensation expense. Unallocated shares owned by the Company's ESOP are not considered to be outstanding for the purpose of computing earnings per share.

The ESOP shares as of December 31 are as follows:

ESOP Shares	At December 31,	
	2015	2014
Allocated shares	379,860	321,449
Shares committed to be released	26,511	—
Unallocated shares	181,822	—
Total ESOP shares	588,193	321,449
Market value of unallocated shares (in thousands)	$2,160	$—

Supplemental Executive Retirement Plan: In May 1999, Summit Community Bank entered into a non-qualified Supplemental Executive Retirement Plan ("SERP") with certain senior officers, which provides participating officers with an income benefit payable at retirement age or death. During 2000, Shenandoah Valley National Bank adopted a similar plan and during 2002, Summit Financial Group, Inc. adopted a similar plan. The liabilities accrued for the SERP's at December 31, 2015 and 2014 were $4.3 million and $3.9 million, respectively, which are included in other liabilities.

Share Based Compensation: The 2014 Long-Term Incentive Plan ("2014 LTIP") was adopted by our shareholders in May 2014 to enhance the ability of the Company to attract and retain exceptionally qualified individuals to serve as

key employees. The LTIP provides for the issuance of up to 500,000 shares of common stock, in the form of equity awards including stock options, restricted stock, restricted stock units, stock appreciation rights ("SARs"), performance units, other stock-based awards or any combination thereof, to our key employees.

Stock options awarded under the 2009 Officer Stock Option Plan and the 1998 Officer Stock Option Plan (collectively, the “Plans”) were not altered by the 2014 LTIP, and remain subject to the terms of the Plans. However, under the terms of the 2014 LTIP, all shares of common stock remaining issuable under the Plans at the time the 2014 LTIP was adopted ceased to be available for future issuance.

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Under the 2014 LTIP and the Plans, stock options and SARs have generally been granted with an exercise price equal to the fair value of Summit's common stock on the grant date. We periodically grant share based compensation to individual employees. During second quarter 2015, we granted 166,717 SARs that become exercisable ratably over five years (20% per year) and expire ten years after the grant date. There were no grants of stock options in 2015 and no grants of stock options or SARs in 2014.

The fair value of our employee stock options and SARs granted under the Plans is estimated at the date of grant using the Black-Scholes option-pricing model. This model requires the input of highly subjective assumptions, changes to which can materially affect the fair value estimate. Additionally, there may be other factors that would otherwise have a significant effect on the value of employee stock options and SARs granted but are not considered by the model. Because our employee stock options and SARs have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options and SARs at the time of grant. The assumptions used to value SARs issued during 2015 were a risk-free interest rate of 1.96%, an expected dividend yield of 2.75%, an expected common stock volatility of 61.84%, and an expected life of 10 years.

We recognize compensation expense based on the estimated number of stock awards expected to actually vest, exclusive of the awards expected to be forfeited. During 2013, 2014, and 2015, our stock compensation expense and related deferred taxes were insignificant.

A summary of activity in our Plans during 2013, 2014 and 2015 is as follows:

	Options / SARs		Weighted-Average Exercise Price (WAEP)
Outstanding, December 31, 2012	249,700		$18.98
Granted	—		—
Exercised	(17,800	)	5.37
Forfeited	(1,750	)	19.69
Expired	(44,740	)	21.83
Outstanding, December 31, 2013	185,410		$19.59
Granted	—		—
Exercised	(10,160	)	6.98
Forfeited	(6,500	)	24.44
Expired	(11,580	)	16.64
Outstanding, December 31, 2014	157,170		$20.43
Granted	166,717		12.01
Exercised	(6,560	)	7.87
Forfeited	—		—
Expired	(73,180	)	23.67
Outstanding, December 31, 2015	244,147		$14.05
Exercisable Options/SARs:			
December 31, 2015	77,430		$18.43
December 31, 2014	156,170		$20.54
December 31, 2013	182,810		$19.24

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Other information regarding awards outstanding and exercisable at December 31, 2015 is as follows:

	Options/SARs Outstanding				Options/SARs Exercisable		
Range of exercise price	# of awards	WAEP	Wted. Avg. Remaining Contractual Life (yrs)	Aggregate Intrinsic Value (in thousands)	# of awards	WAEP	Aggregate Intrinsic Value (in thousands)
$ 2.54 - $ 6.00	7,750	$3.75	5.18	$63	7,750	$3.75	$63
6.01 - 10.00	12,680	8.71	2.65	40	12,680	8.71	40
10.01 - 17.50	166,717	12.01	9.32	—	—	—	—
17.51 - 20.00	23,400	17.80	2.00	—	23,400	17.80	—
20.01 - 25.93	33,600	25.93	2.44	—	33,600	25.93	—
	244,147	$14.05		$103	77,430	$18.43	$103

NOTE 15. COMMITMENTS AND CONTINGENCIES

Off-Balance Sheet Arrangements

We are a party to certain financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of our customers. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the statement of financial position. The contract amounts of these instruments reflect the extent of involvement that we have in this class of financial instruments.

Many of our lending relationships contain both funded and unfunded elements. The funded portion is reflected on our balance sheet. The unfunded portion of these commitments is not recorded on our balance sheet until a draw is made under the loan facility. Since many of the commitments to extend credit may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash flow requirements.

A summary of the total unfunded, or off-balance sheet, credit extension commitments follows:

Dollars in thousands	December 31, 2015
Commitments to extend credit:	
Revolving home equity and credit card lines	$58,008
Construction loans	32,044
Other loans	49,775
Standby letters of credit	5,302
Total	$145,129

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. We evaluate each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if we deem necessary upon extension of credit, is based on our credit evaluation. Collateral held varies but may include accounts receivable, inventory, equipment or real estate.

Standby letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. Standby letters of credit generally are contingent upon the failure of the customer to perform according to the terms of the underlying contract with the third party.

Our exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of those instruments. We use the same credit

policies in making commitments and conditional obligations as we do for on-balance sheet instruments.

Operating leases: We occupy certain facilities under long-term operating leases. The aggregate minimum annual rental commitments under those leases total approximately $256,000 in 2016 and $215,000 in 2017. Total net rent expense included in the accompanying consolidated financial statements was $285,000 in 2015, $291,000 in 2014, and $278,000 in 2013.

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Litigation: We are involved in various legal actions arising in the ordinary course of business. To the best of our knowledge, no matters have been specifically identified to management that are reasonably possible to have a significant adverse effect on the consolidated financial statements.

Employment Agreements: We have various employment agreements with our chief executive officer and certain other executive officers. These agreements contain change in control provisions that would entitle the officers to receive compensation in the event there is a change in control in the Company (as defined) and a termination of their employment without cause (as defined).

Legal Contingencies

On May 13, 2014, the ResCap Liquidating Trust ("ResCap"), as successor to Residential Funding Company, LLC f/k/a Residential Funding Corporation ("RFC"), filed a complaint against Summit Financial Mortgage, LLC ("Summit Mortgage"), a former residential mortgage subsidiary of Summit whose operations were discontinued in 2007, in the United States Bankruptcy Court for the Southern District of New York and subsequently amended its complaint on July 25, 2014. The Amended Complaint asserts the following three causes of action related to Summit Mortgage's origination and subsequent sale of mortgage loans to Residential Funding Corporation: 1) Summit Mortgage breached its representations and warranties made in the contract governing the sale of the mortgage loans to RFC; 2) an indemnification claim against Summit Mortgage for damages paid by ResCap to settle claims in RFC's bankruptcy proceeding which allegedly relate to mortgage loans Summit Mortgage sold to RFC; 3) a claim for damages against Summit Community Bank, Inc., former parent of Summit Mortgage, arising out of a guaranty in which the Bank guaranteed Summit Mortgage's full performance under the contract governing the sale of mortgage loans to RFC. Summit has filed a motion to dismiss the case. Based upon the applicable statute of limitations, the Court granted our motion to dismiss the breach of contract claim with respect to loans Summit sold to RFC prior to March 14, 2006. The court otherwise denied our motion to dismiss on the grounds that the other arguments raised factual questions that could not be decided on a motion to dismiss. An estimate as to possible loss resulting from the Amended Complaint cannot be provided at this time because such an estimate cannot be made. Summit intends to defend these claims vigorously.

We are not a party to any other litigation except for matters that arise in the normal course of business. While it is impossible to ascertain the ultimate resolution or range of financial liability with respect to these contingent matters, in the opinion of management, the outcome of these matters will not have a significant adverse effect on the consolidated financial statements.

NOTE 16. PREFERRED STOCK

On March 12, 2015, we converted all outstanding shares of our 8% Non-Cumulative Convertible Preferred Stock, Series 2009, $1.00 par value, with a liquidation preference of $1,000 per share (the "Series 2009 Preferred Stock") and our 8% Non-Cumulative Convertible Preferred Stock, Series 2011, $1.00 par value, with a liquidation preference of $500 per share (the "Series 2011 Preferred Stock") to common shares.

On September 30, 2009, we sold in a private placement 3,710 shares, or $3.7 million, of 8% Non-Cumulative Convertible Preferred Stock, Series 2009, $1.00 par value, with a liquidation preference of $1,000 per share (the "Series 2009 Preferred Stock"), based on the private placement exemption under Section 4(2) of the Securities Act of 1933 (the "Securities Act") and Rule 506 of Regulation D.

The terms of the Series 2009 Preferred Stock provided that it may have been converted into common stock under three different scenarios. First, the Series 2009 Preferred Stock may have been converted at the holder's option, on any dividend payment date, at the option of the holder, into shares of common stock based on a conversion rate

determined by dividing $1,000 by $5.50, plus cash in lieu of fractional shares and subject to anti-dilution adjustments (the "Series 2009 Conversion Rate"). Second, on or after June 1, 2012, Summit may have, at its option, on any dividend payment date, converted some or all of the Series 2009 Preferred Stock into shares of Summit's common stock at the applicable Series 2009 Conversion Rate. Summit could have exercised this conversion right if, for 20 trading days within any period of 30 consecutive trading dates during the six months immediately preceding the conversion, the closing price of the common stock exceeded 135% of $5.50. Third, after ten years, on June 1, 2019, all remaining outstanding shares of the Series 2009 Preferred Stock would have been converted at the applicable Series 2009 Conversion Rate. Adjustments to the Series 2009 Conversion Rate would have been made in the event of a stock dividend, stock split, reclassification, reorganization, merger or other similar transaction.

In late 2011, we sold pursuant to both subscription rights distributed to our common shareholders and to a supplemental public offering 12,000 shares, or $6.0 million, of 8% Non-Cumulative Convertible Preferred Stock, Series 2011, $1.00 par value, with a liquidation preference of $500 per share (the "Series 2011 Preferred Stock").

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The terms of the Series 2011 Preferred Stock also provided that it may have been converted into common stock under three different scenarios. First, the Series 2011 Preferred Stock may have been converted at the holder's option, on any dividend payment date, at the option of the holder, into shares of common stock based on a conversion rate determined by dividing $500 by $4.00, plus cash in lieu of fractional shares and subject to anti-dilution adjustments (the "Series 2011 Conversion Rate"). Second, on or after June 1, 2014, Summit may have, at its option, on any dividend payment date, converted some or all of the Series 2011 Preferred Stock into shares of Summit's common stock at the applicable Series 2011 Conversion Rate. Summit may have exercised this conversion right if, for 20 trading days during the 30 consecutive trading days immediately preceding the date of notice of the conversion, the closing price of the common stock exceeded 135% of $4.00. Third, after ten years, on June 1, 2021, all remaining outstanding shares of the Series 2011 Preferred Stock would have converted at the applicable Series 2011 Conversion Rate. Adjustments to the Series 2011 Conversion Rate would have been made in the event of a stock dividend, stock split, reclassification, reorganization, merger or other similar transaction.

Both the Series 2009 and Series 2011 Preferred Stock paid noncumulative dividends, if and when declared by the Board of Directors, at a rate of 8.0% per annum. Dividends declared were payable quarterly in arrears on the 1st day of March, June, September and December of each year. The Series 2009 and Series 2011 Preferred Stock qualified as Tier 1 capital for regulatory capital purposes.

NOTE 17. COMMON STOCK ISSUANCES

We entered into a Securities Purchase Agreement ("SPA") with Castle Creek Capital Partners V, LP ("Castle Creek") on August 25, 2014. In accordance with the terms of the SPA, we agreed to sell 1,057,137 shares of common stock (representing approximately 9.9% of our outstanding common stock) at the price of $9.75 per share to Castle Creek in a private placement. The private placement with Castle Creek consisted of two (2) closings. The first closing for the purchase of 819,384 shares of common stock at an aggregate price of $7,988,994 was consummated on November 25, 2014. The second closing for the purchase of 237,753 shares of common stock at an aggregate price of $2,318,092 was consummated on March 17, 2015 and was conditioned upon, among other things, the conversion into shares of common stock of all of the outstanding shares of our 8% Non-Cumulative Convertible Preferred Stock, Series 2009 and our 8% Non-Cumulative Convertible Preferred Stock, Series 2011 ("the Conversions"), in accordance with the terms of our Articles of Incorporation, as amended.

We also agreed under the terms of the SPA to commence, following the second closing of the sale of Common Stock to Castle Creek under the SPA, a rights offering (the "Rights Offering") to the holders of record of the Common Stock as of a date selected by Summit's Board of Directors. In the Rights Offering, all holders of Common Stock as of the record date, excluding Castle Creek, were offered non-transferable rights ("Rights") to purchase shares of Common Stock at the same per share purchase price of $9.75 used in the Private Placement to Castle Creek. The aggregate number of shares that offered for sale in connection with the Rights Offering was 256,410 with 256,167 shares being issued yielding total gross proceeds of approximately $2.5 million, prior to any fees and expenses associated with the sale. The Rights were distributed to all of the holders of the Common Stock, excluding Castle Creek, on a pro rata basis, based on the number of shares of Common Stock owned by each shareholder as of April 10, 2015, the record date used in connection with the Rights Offering. The Rights Offering expired May 29, 2015.

NOTE 18. REGULATORY MATTERS

The primary source of funds for our dividends paid to our shareholders is dividends received from our subsidiaries. Dividends paid by the subsidiary bank are subject to restrictions by banking law and regulations and require approval by the bank's regulatory agency if dividends declared in any year exceed the bank's current year's net income, as defined, plus its retained net profits of the two preceding years. During 2016, the Bank will have $12.8 million plus net income for the interim periods through the date of declaration, available for dividends for distribution

to us.

We and our subsidiaries are subject to various regulatory capital requirements administered by the banking regulatory agencies. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, we and each of our subsidiaries must meet specific capital guidelines that involve quantitative measures of our and our subsidiaries' assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. We and each of our subsidiaries' capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require us and each of our subsidiaries to maintain minimum amounts and ratios of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and

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of Tier I capital (as defined) to average assets (as defined). We believe, as of December 31, 2015, that we and our subsidiaries met all capital adequacy requirements to which they were subject.

The most recent notifications from the banking regulatory agencies categorized us and each of our subsidiaries as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, we and each of our subsidiaries must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the table below.

Our subsidiary banks are required to maintain reserve balances with the Federal Reserve Bank. The required reserve balance was $629,000 at December 31, 2015.

Our actual capital amounts and ratios as well as our subsidiary, Summit Community Bank's ("Summit Community") are presented in the following table.

	Actual			Minimum Required Capital - Basel III Fully Phased-in			Minimum Required To Be Well Capitalized		
Dollars in thousands	Amount	Ratio		Amount	Ratio		Amount	Ratio	
As of December 31, 2015									
CET1 (to risk weighted assets)									
Summit	$137,849	11.8	%	$81,775	7.0	%	$75,934	6.5	%
Summit Community	158,081	13.6	%	81,365	7.0	%	75,553	6.5	%
Tier I Capital (to risk weighted assets)									
Summit	156,849	13.4	%	99,494	8.5	%	93,641	8.0	%
Summit Community	158,081	13.6	%	98,801	8.5	%	92,989	8.0	%
Total Capital (to risk weighted assets)									
Summit	168,321	14.4	%	122,734	10.5	%	116,890	10.0	%
Summit Community	169,553	14.5	%	122,780	10.5	%	116,933	10.0	%
Tier I Capital (to average assets)									
Summit	156,849	10.7	%	58,635	4.0	%	73,294	5.0	%
Summit Community	158,081	10.8	%	58,549	4.0	%	73,186	5.0	%
As of December 31, 2014									
Tier I Capital (to risk weighted assets)									
Summit	141,589	13.3	%	42,583	4.0	%	63,875	6.0	%
Summit Community	150,653	14.2	%	42,437	4.0	%	63,656	6.0	%
Total Capital (to risk weighted assets)									
Summit	158,196	14.9	%	84,937	8.0	%	106,172	10.0	%
Summit Community	161,820	15.3	%	84,612	8.0	%	105,765	10.0	%
Tier I Capital (to average assets)									
Summit	141,589	9.9	%	57,208	4.0	%	71,510	5.0	%
Summit Community	150,653	10.6	%	56,850	4.0	%	71,063	5.0	%

NOTE 19. SEGMENT INFORMATION

We operate two business segments: community banking and insurance & financial services. These segments are primarily identified by the products or services offered. The community banking segment consists of our full service banks which offer customers traditional banking products and services through various delivery channels. The insurance & financial services segment includes three insurance agency offices that sell insurance products. The accounting policies discussed throughout the notes to the consolidated financial statements apply to each of our business segments.

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Inter-segment revenue and expense consists of management fees allocated to the community banking and the insurance & financial services segments for all centralized functions that are performed by the parent, including overall direction in the areas of strategic planning, investment portfolio management, asset/liability management, financial reporting and other financial and administrative services. Information for each of our segments is included below:

	December 31, 2015				
Dollars in thousands	Community Banking	Insurance & Financial Services	Parent	Eliminations	Total
Net interest income	$46,744	$—	$(728)	$—	$46,016
Provision for loan losses	1,250	—	—	—	1,250
Net interest income after provision for loan losses	45,494	—	(728)	—	44,766
Other income	7,324	4,537	1,133	(1,133)	11,861
Other expenses	28,060	4,315	2,390	(1,133)	33,632
Income (loss) before income taxes	24,758	222	(1,985)	—	22,995
Income tax expense (benefit)	7,542	43	(692)	—	6,893
Net income (loss)	17,216	179	(1,293)	—	16,102
Dividends on preferred shares	—	—	—	—	—
Net income (loss) applicable to common shares	$17,216	$179	$(1,293)	$—	$16,102
Inter-segment revenue (expense)	$(1,047)	$(86)	$1,133	$—	$—
Average assets	$1,496,396	$5,923	$167,839	$(203,571)	$1,466,587

	December 31, 2014				
Dollars in thousands	Community Banking	Insurance & Financial Services	Parent	Eliminations	Total
Net interest income	$44,209	$—	$(1,824)	$—	$42,385
Provision for loan losses	2,250	—	—	—	2,250
Net interest income after provision for loan losses	41,959	—	(1,824)	—	40,135
Other income	6,299	4,882	1,231	(1,189)	11,223
Other expenses	30,579	4,188	1,746	(1,189)	35,324
Income (loss) before income taxes	17,679	694	(2,339)	—	16,034
Income tax expense (benefit)	5,191	226	(739)	—	4,678
Net income (loss)	12,488	468	(1,600)	—	11,356
Dividends on preferred shares	—	—	771	—	771
Net income (loss) applicable to common shares	$12,488	$468	$(2,371)	$—	$10,585
Inter-segment revenue (expense)	$(1,071)	$(118)	$1,189	$—	$—
Average assets	$1,466,521	$6,130	$164,769	$(217,418)	$1,420,002

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Dollars in thousands	December 31, 2013 Community Banking	Insurance & Financial Services	Parent	Eliminations	Total
Net interest income	$40,725	$—	$(1,922)	$—	$38,803
Provision for loan losses	4,500	—	—	—	4,500
Net interest income after provision for loan losses	36,225	—	(1,922)	—	34,303
Other income	6,375	4,834	1,087	(1,087)	11,209
Other expenses	29,534	4,592	1,717	(1,087)	34,756
Income (loss) before income taxes	13,066	242	(2,552)	—	10,756
Income tax expense (benefit)	3,490	92	(894)	—	2,688
Net income (loss)	9,576	150	(1,658)	—	8,068
Dividends on preferred shares	—	—	775	—	775
Net income (loss) applicable to common shares	$9,576	$150	$(2,433)	$—	$7,293
Inter-segment revenue (expense)	$(979)	$(108)	$1,087	$—	$—
Average assets	$1,431,131	$6,176	$157,249	$(211,600)	$1,382,956

NOTE 20. EARNINGS PER SHARE

The computations of basic and diluted earnings per share follow:

	For the Year Ended December 31, 2015			2014			2013		
Dollars in thousands, except per share amounts	Income (Numerator)	Common Shares (Denominator)	Per Share	Income (Numerator)	Common Shares (Denominator)	Per Share	Income (Numerator)	Common Shares (Denominator)	Per Share
Net income	$16,102			$11,356			$8,068		
Less preferred stock dividends	—			(771)			(775)		
Basic EPS	$16,102	10,295,434	$1.56	$10,585	7,539,444	$1.40	$7,293	7,442,689	$0.98
Effect of dilutive securities:									
Stock options		8,353			9,381			7,532	
Stock appreciation rights (SARs)		—			—			—	
Series 2011 convertible preferred stock	—	285,610		476	1,489,735		478	1,496,738	
Series 2009 convertible preferred stock	—	125,878		295	673,001		297	674,545	
Diluted EPS	$16,102	10,715,275	$1.50	$11,356	9,711,561	$1.17	$8,068	9,621,504	$0.84

Stock option and SAR grants and the convertible preferred shares are disregarded in this computation if they are determined to be anti-dilutive. Our anti-dilutive stock options at December 31, 2015, 2014, and 2013, totaled 57,000

shares, 128,900 shares, and 165,460 shares, respectively, and our anti-dilutive SARs at December 31, 2015 were 166,717.

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NOTE 21. CONDENSED FINANCIAL STATEMENTS OF PARENT COMPANY

Our investment in our wholly-owned subsidiaries is presented on the equity method of accounting. Information relative to our balance sheets at December 31, 2015 and 2014, and the related statements of income and cash flows for the years ended December 31, 2015, 2014 and 2013, are presented as follows:

Balance Sheets

	December 31,	
Dollars in thousands	2015	2014
Assets		
Cash	$1,984	$13,115
Investment in subsidiaries, eliminated in consolidation	164,787	159,839
Securities available for sale	166	102
Premises and equipment	81	65
Other assets	1,677	1,641
Total assets	$168,695	$174,762
Liabilities and Shareholders' Equity		
Long-term borrowings	$2,708	$4,513
Subordinated debentures	—	16,800
Subordinated debentures owed to unconsolidated subsidiary trusts	19,589	19,589
Other liabilities	2,654	2,216
Total liabilities	24,951	43,118
Preferred stock and related surplus, authorized 250,000 shares:		
Series 2009, 8% Non-cumulative convertible preferred stock, par value $1.00; issued 2014 - 3,610 shares	—	3,419
Series 2011, 8% Non-cumulative convertible preferred stock, par value $1.00; issued 2014 - 11,914 shares	—	5,764
Common stock and related surplus, $2.50 par value, authorized 20,000,000 shares; issued 2015 - 10,671,744 shares; 2014 - 8,301,746 shares	45,741	32,670
Unallocated common stock held by Employee Stock Ownership Plan - 2015 - 181,822	(1,964)	—
Retained earnings	100,423	87,719
Accumulated other comprehensive income (loss)	(456)	2,072
Total shareholders' equity	143,744	131,644
Total liabilities and shareholders' equity	$168,695	$174,762

Statements of Income

	For the Year Ended December 31,		
Dollars in thousands	2015	2014	2013
Income			
Dividends from subsidiaries	$10,000	$6,500	$2,500
Other dividends and interest income	19	22	26
Realized securities gains	—	41	—
Management and service fees from subsidiaries	1,133	1,189	1,087
Total income	11,152	7,752	3,613
Expense			
Interest expense	747	1,845	1,948
Operating expenses	2,390	1,746	1,717

Total expenses	3,137	3,591	3,665
Income (loss) before income taxes and equity in undistributed income of subsidiaries	8,015	4,161	(52)
Income tax (benefit)	(692)	(739)	(894)
Income before equity in undistributed income of subsidiaries	8,707	4,900	842
Equity in (distributed) undistributed income of subsidiaries	7,395	6,456	7,226
Net income	16,102	11,356	8,068
Dividends on preferred shares	—	771	775
Net income applicable to common shares	$16,102	$10,585	$7,293

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Statements of Cash Flows

	For the Year Ended December 31,		
Dollars in thousands	2015	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$16,102	$11,356	$8,068
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Equity in (undistributed) distributed net income of subsidiaries	(7,395)	(6,456)	(7,226)
Deferred tax expense (benefit)	(42)	46	(107)
Depreciation	30	23	2
Realized securities gains	—	(41)	—
Stock compensation expense	72	1	2
(Increase) decrease in cash surrender value of bank owned life insurance	4	1	(5)
(Increase) decrease in other assets	5	19	15
Increase (decrease) in other liabilities	943	57	(738)
Net cash provided by operating activities	9,719	5,006	11
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds sales of available for sale securities	—	112	—
Principal payments received on available for sale securities	—	8	440
Purchase of available for sale securities	(70)	—	(199)
Purchases of premises and equipment	(46)	(6)	(84)
Net cash provided by (used in) investing activities	(116)	114	157
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid on preferred stock	(191)	(774)	(776)
Dividends paid on common stock, net of reinvestment	(3,330)	—	—
Exercise of stock options	51	71	96
Net proceeds from long-term borrowings	—	—	3,454
Repayment of long-term borrowings	(1,838)	(4,402)	(3,159)
Repayment of subordinated debt	(16,800)	—	—
Repurchase and retirement of common stock	(1,080)	—	—
Purchase of unallocated common stock held by ESOP	(2,250)	—	—
Net proceeds from issuance of common stock	4,704	7,822	—
Net cash provided by (used in) financing activities	(20,734)	2,717	(385)
Increase (decrease) in cash	(11,131)	7,837	(217)
Cash:			
Beginning	13,115	5,278	5,495
Ending	$1,984	$13,115	$5,278
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash payments for:			
Interest	$761	$1,909	$1,942

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NOTE 22. QUARTERLY FINANCIAL DATA (Unaudited)

A summary of our unaudited selected quarterly financial data is as follows:

	2015			
Dollars in thousands, except per share amounts	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Interest income	$14,743	$14,658	$14,531	$14,951
Net interest income	11,520	11,458	11,305	11,733
Net income	4,285	4,010	3,661	4,146
Net income applicable to common shares	4,285	4,010	3,661	4,146
Basic earnings per share	$0.49	$0.38	$0.34	$0.39
Diluted earnings per share	$0.41	$0.38	$0.34	$0.39
	2014			
Dollars in thousands, except per share amounts	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Interest income	$14,070	$14,344	$14,760	$14,452
Net interest income	10,038	10,320	11,077	10,951
Net income	2,389	2,432	3,336	3,199
Net income applicable to common shares	2,195	2,239	3,143	3,008
Basic earnings per share	$0.29	$0.30	$0.42	$0.39
Diluted earnings per share	$0.25	$0.25	$0.35	$0.32

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Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None

Item 9A. Controls and Procedures

Disclosure Controls and Procedures: Our management, including the Chief Executive Officer and Chief Financial Officer, have conducted as of December 31, 2015, an evaluation of the effectiveness of disclosure controls and procedures as defined in Exchange Act Rule 13a-15(e). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures as of December 31, 2015 were effective.

Management's Report on Internal Control Over Financial Reporting: Information required by this item is set forth on page 44.

Attestation Report of the Registered Public Accounting Firm: Information required by this item is set forth on pages 45 and 46.

Changes in Internal Control Over Financial Reporting: There were no changes in our internal control over financial reporting during the quarter ended December 31, 2015, that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None

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PART III.

Item 10. Directors, Executive Officers, and Corporate Governance

Information required by this item is set forth under the caption “Section 16(a) Beneficial Ownership Reporting Compliance”, under the headings “NOMINEES FOR DIRECTOR WHOSE TERMS EXPIRE IN 2019”, “DIRECTORS WHOSE TERMS EXPIRE IN 2018", “DIRECTORS WHOSE TERMS EXPIRE IN 2017”, and “EXECUTIVE OFFICERS” and under the captions “Family Relationships”, “Director Qualifications and Review of Director Nominees”, “Compensation and Nominating Committee” and “Audit and Compliance Committee” in our 2016 Proxy Statement, and is incorporated herein by reference.

We have adopted a Code of Ethics that applies to our chief executive officer, chief financial officer, chief accounting officer, and all directors, officers and employees. We have posted this Code of Ethics on our internet website at www.summitfgi.com under “Governance Documents”. Any amendments to or waivers from any provision of the Code of Ethics applicable to the chief executive officer, chief financial officer, or chief accounting officer will be disclosed by timely posting such information on our internet website.

There have been no material changes to the procedures by which shareholders may recommend nominees since the disclosure of the procedures in our 2016 proxy statement.

Item 11. Executive Compensation

Information required by this item is set forth under the heading "COMPENSATION DISCUSSION AND ANALYSIS", “EXECUTIVE COMPENSATION”, "COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION", and "COMPENSATION AND NOMINATING COMMITTEE REPORT" in our 2016 Proxy Statement, and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters

The following table provides information on our equity compensation plans as of December 31, 2015.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (#) (1)	Weighted-average exercise price of outstanding options, warrants and rights ($)	Number of securities remaining available for future issuance under equity compensation plans (#) (2)
Equity compensation plans approved by stockholders	77,430	$ 18.43	333,283
Equity compensation plans not approved by stockholders	—	—	—
Total	77,430	$ 20.43	333,283

(1) The number of securities issuable upon exercise of outstanding options includes options awarded under the 1998 Officer Stock Option Plan and the 2009 Officer Stock Option Plan.

(2) Under the Summit Financial Group, Inc. 2014 Long-Term Incentive Plan, approved by our shareholders on May 15, 2014, we may make equity awards up to 500,000 shares of common stock. During 2015, we issued 166,717 stock appreciation rights with an exercise price of $12.01, which exceeded our stocks December 31, 2015 fair value of $11.88 per share.

The remaining information required by this item is set forth under the caption "Security Ownership of Directors and Officers" and under the headings "NOMINEES FOR DIRECTOR WHOSE TERMS EXPIRE IN 2019", "DIRECTORS WHOSE TERMS EXPIRE IN 2018", "DIRECTORS WHOSE TERMS EXPIRE IN 2017", "PRINCIPAL SHAREHOLDERS" and "EXECUTIVE OFFICERS" in our 2016 Proxy Statement, and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Information required by this item is set forth under the captions "Transactions with Related Persons" and "Independence of Directors and Nominees" in our 2016 Proxy Statement, and is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services

Information required by this item is set forth under the caption "Fees to Arnett Carbis Toothman, LLP" in our 2016 Proxy Statement, and is incorporated herein by reference.

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PART IV.

Item 15. Exhibits, Financial Statement Schedules

All financial statements and financial statement schedules required to be filed by this Form or by Regulation S-X, which are applicable to the Registrant, have been presented in the financial statements and notes thereto in Item 8 in Management's Discussion and Analysis of Financial Condition and Results of Operation in Item 7 or elsewhere in this filing where appropriate. The listing of exhibits follows:

Exhibit Number	Exhibit Description	Filed Herewith	Incorporated by Reference*		
			Form	Exhibit	Filing Date
(3) Articles of Incorporation and By-Laws:					
(i)	Amended and Restated Articles of Incorporation of Summit Financial Group, Inc.		10-Q	3.i	3/31/2006
(ii)	Articles of Amendment 2009		8-K	3.1	9/30/2009
(iii)	Articles of Amendment 2011		8-K	3.1	11/3/2011
(iv)	Amended and Restated By-laws of Summit Financial Group, Inc.		10-Q	3.2	6/30/2006
(10) Material Contracts					
(i)	Amended and Restated Employment Agreement with H. Charles Maddy, III		10-K	10.1	12/31/2008
(ii)	First Amendment to Amended and Restated Employment Agreement with H. Charles Maddy, III		8-K	10.1	2/4/2010
(iii)	Second Amendment to Amended and Restated Employment Agreement with H. Charles Maddy, III		8-K	10.1	12/14/2010
(iv)	Third Amendment to Amended and Restated Employment Agreement with H. Charles Maddy, III		8-K	10.1	2/23/2012
(v)	Fourth Amendment to Amended and Restated Employment Agreement with H. Charles Maddy, III		8-K	10.1	2/21/2013
(vi)	Fifth Amendment to Amended and Restated Employment Agreement with H. Charles Maddy, III		8-K	10.1	2/25/2014
(vii)	Sixth Amendment to Amended and Restated Employment Agreement with H. Charles Maddy, III		8-K	10.1	2/23/2015
(viii)	Seventh Amendment to Amended and Restated Employment Agreement with H. Charles Maddy, III		8-K	10.1	2/17/2016
(ix)	Change in Control Agreement with H. Charles Maddy, III		10-K	10.2	12/31/2008
(x)	Executive Salary Continuation Agreement with H. Charles Maddy, III		10-K	10.3	12/31/2008
(xi)	Form of Amended and Restated Employment Agreement entered into with Robert S. Tissue, Patrick N. Frye and Scott C. Jennings		10-K	10.4	12/31/2008
(xii)	First Amendment to Amended and Restated Employment Agreement with Patrick N. Frye		10-K	10.8	12/31/2011
(xiii)	Form of Executive Salary Continuation Agreement entered into with Robert S. Tissue, Patrick N. Frye and Scott C. Jennings		10-K	10.5	12/31/2008
(xiv)	Amended and Restated Employment Agreement with Bradford E. Ritchie		10-K	10.12	12/31/2011

(xv)	Executive Salary Continuation Agreement with Bradford E. Ritchie	10-K	10.13	12/31/2011
(xvi)	Form of Indemnification Agreement between Summit and each Director of Summit	8-K	1.01	2/12/2009
(xvii)	1998 Officers Stock Option Plan	10-QSB	10	6/30/1998
(xviii)	Summit Financial Group, Inc. Directors Deferral Plan	10-K	10.10	12/31/2005
(xix)	Amendment No. 1 to Directors Deferral Plan	10-K	10.11	12/31/2005
(xx)	Amendment No. 2 to Directors Deferral Plan	10-K	10.14	12/31/2008
(xxi)	Summit Community Bank, Inc. Amended and Restated Directors Deferral Plan	10-K	10.15	12/31/2008
(xxii)	Rabbi Trust for The Summit Financial Group, Inc. Directors Deferral Plan	10-K	10.16	12/31/2008

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Exhibit Number		Exhibit Description	Filed Herewith	Incorporated by Reference*		
				Form	Exhibit	Filing Date
	(xxiii)	Amendment No. One to Rabbi Trust for Summit Financial Group, Inc. Directors Deferral Plan		10-K	10.2	12/31/2008
	(xxiv)	Amendment No. One to Rabbi Trust for Summit Community Bank, Inc. (successor in interest to Capital State Bank, Inc.) Directors Deferral Plan		10-K	10.2	12/31/2008
	(xxv)	Amendment No. One to Rabbi Trust for Summit Community Bank, Inc. (successor in interest to Shenandoah Valley National Bank, Inc.) Directors Deferral Plan		10-K	10.2	12/31/2008
	(xxvi)	Amendment No. One to Rabbi Trust for Summit Community Bank, Inc. (successor in interest to South Branch Valley National Bank) Directors Deferral Plan		10-K	10.2	12/31/2008
	(xxvii)	Form of Non-Qualified Stock Option Grant Agreement		10-Q	10.3	3/31/2006
	(xxviii)	Form of First Amendment to Non-Qualified Stock Option Grant Agreement		10-Q	10.4	3/31/2006
	(xxix)	2009 Officer Stock Option Plan		8-K	10.1	5/14/2009
	(xxx)	SFGI 2014 Long-Term Incentive Plan		S-8	4	9/25/2014
	(xxxi)	Form of Summit Financial Group, Inc. 2014 Long-Term Incentive Plan Stock-Settled Stock Appreciation Rights Agreement		8-K	10.1	4/29/2015
	(xxxii)	Securities Purchase Agreement with Castle Creek Capital Partners V, LP		8-K	10.1	8/25/2014
	(xxxiii)	Executive Officer Management Incentive Plan 2015		8-K	10.2	2/23/2015
	(xxxiv)	Executive Officer Management Incentive Plan 2016		8-K	—	2/3/2016
(10.1)		Board Attendance and Compensation Policy, as amended	X			
(12)	Statements Re: Computation of Ratios			10-K	12	12/31/2008
(21)	Subsidiaries of Registrant			10-K	21	12/31/2008
(23)	Consent of Arnett Carbis Toothman LLP		X			
(24)	Power of Attorney		X			
(31.1)	Sarbanes-Oxley Act Section 302 Certification of Chief Executive Officer		X			
(31.2)	Sarbanes-Oxley Act Section 302 Certification of Chief Financial Officer		X			
(32.1)**	Sarbanes-Oxley Act Section 906 Certification of Chief Executive Officer		X			
(32.2)**	Sarbanes-Oxley Act Section 906 Certification of Chief Financial Officer		X			
(101)***	Interactive date file (XBRL)		X			

* The SEC reference number for all exhibits incorporated by reference is 0-16587.
** Furnished, not filed.
***As provided in Rule 406T

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SUMMIT FINANCIAL GROUP, INC.
a West Virginia Corporation
(registrant)

By: /s/ H. Charles Maddy, III 2/26/2016
H. Charles Maddy, III Date
President & Chief Executive Officer

By: /s/ Julie R. Markwood 2/26/2016
Julie R. Markwood Date
Vice President &
Chief Accounting Officer

By: /s/ Robert S. Tissue 2/26/2016
Robert S. Tissue Date
Senior Vice President &
Chief Financial Officer

The Directors of Summit Financial Group, Inc. executed a power of attorney appointing Robert S. Tissue and/or Julie R. Markwood their attorneys-in-fact, empowering them to sign this report on their behalf.

By: /s/ Robert S. Tissue 2/26/2016
Robert S. Tissue Date
Attorney-in-fact

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